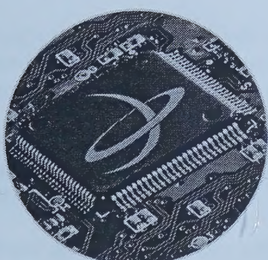

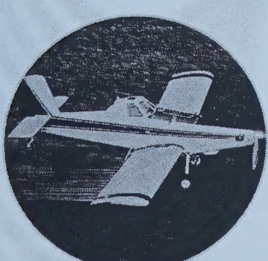

Annual Report
2008

Hemisphere GPS®

Annual General Meeting

The Annual General Meeting will be held on Thursday, May 14, 2009 at 2:30 pm MST at the Calgary Telus Convention Centre, Rm. 101/102 (main level of the north building), 136 Eighth Avenue SE., Calgary, Alberta

MESSAGE TO SHAREHOLDERS

2008 was the most successful year in the history of Hemisphere GPS, despite the global economic conditions and the late North American harvest which emerged at the end of the year. We are very proud of what we accomplished last year, and are even more excited about the great opportunities we are pursuing for future growth and scalability.

The strength of 2008 was primarily due to attractive conditions within our core revenue market in Precision Agriculture. Net farm income was at a record in 2007 which meant more cash in the farmer's hands in 2008 to re-invest and to increase the efficiency and profitability of their operations. Similarly, 2008 is forecasted by the US Department of Agriculture (USDA) to deliver record net farm income again, providing further capital available for 2009 equipment purchases. In fact, net farm income was particularly good for our target market of broad acre crop producers.

In 2008, we achieved our initial guidance of 35% growth for the year, delivering record profitability on gross margins of better than 50%.

Our new Outback S3 that we released a year ago has been an enormous success for us. The S3 is our top-end product and produced the highest revenue growth for us last year. An enhanced version of the S3 announced in March 2009 continues to position the product as a very economical offering in the higher-end Precision Agriculture segment.

Our latest full product release, the Outback Sts, is expected to deliver additional revenue in 2009, as it positions advanced situational awareness and mapping features for the mid-market segment. At the lower end of the market, our entry-level Outback S-Lite, has also done very well, particularly in international markets.

Auto-steering continues to be our highest revenue generating product as adoption of the technology becomes even more widespread. Fewer customers today are interested in buying precision guidance without the complementary auto-steering technology. When we introduced auto-steering several years ago, we indeed proclaimed that it was going to make a bigger impact on farming operations than GPS guidance alone. Accordingly, we continue to evolve our auto-steering technologies to provide market-leading capabilities. The acquisition of Beeline in December 2007 provided us with a leap forward in electronic steering which we have been further commercializing.

The agriculture markets generate about 85% of our revenues, and while Ag delivered solid growth of 34% in 2008, even stronger growth of 45% was seen in sales to our non-agriculture markets through the Precision Products segment, including sales to marine, GIS, and OEM customers. Revenues for these products are benefitting from a focused global sales strategy which has resulted in increased demand for GPS receivers and board level GPS equipment from OEM's and custom integrators, as well as for the marine line of Vector heading sensor products.

While 2008 was a strong year for us, we believe that the weakened global economic situation will negatively impact orders for larger ticket sales items that cost hundreds of thousands of dollars, such as tractors, combines, and irrigation systems, as already indicated by some of the OEM guidance for 2009. This actually has a potential favorable impact on our business, as we primarily target the mid-market with aftermarket solutions. Our agriculture products are in the $1,000 to $8,000 range in general, and are not usually financed.

It would be naive of us to say that there has not been, or will not be, any impact on customer buying decisions due to the global economic situation. The challenges we expect to see are primarily in international regions where the impact of the strong U.S. dollar makes our products more expensive. We also expect reduced strength in regions impacted by drought, including Australia, Brazil, and Argentina. There are also elements of optimism to note. The 2008 harvest was similar to 2007, and the USDA reports that net farm income will be a new record at US$87 billion for 2008. For perspective, this is 42% higher than the 10-year average. More interestingly, as it pertains to our markets, crop farms specifically, 2008 net cash income is forecasted to have increased by 29% for wheat farmers, 25% for corn farmers, and 22% for soybean farmers. These crops are the largest market segment for Hemisphere GPS' ground agriculture guidance products.

Harder hit areas were in agriculture in areas like cotton, rice, as well as livestock producers, which are expected to see significant declines in 2008 net cash income; however, these are not our traditional markets. At the same time farming production costs are rising from fertilizer, seed, and fuel expenses — expected to rise significantly by historical averages. The most direct and effective way to reduce these costs is simply by increasing efficiency through precision farming, inclusive of our products.

Despite the economic and market turmoil, from a business perspective, the fundamentals of the global agriculture markets appear to be relatively positive, providing a long term outlook for our business that remains encouraging.

While sectors such as real estate, banking, and the automotive areas are experiencing historical pull backs, the world continues to eat, grain inventories remain near 35-year lows, and prices that farmers are getting for their crops are still well above the historical averages. The supply and demand factors that drove much of the hype of the commodities in 2008 remain as relevant today, and in the long-term as they did last summer; thus agriculture remains one of the few bright spots in the world markets today.

Subsequent to year end, Hemisphere GPS signed a new supply agreement with AGCO Corporation to continue to supply and support the Auto-Guide guidance software platform. Under the agreement, Hemisphere GPS continues to design innovative guidance and auto-steering solutions for AGCO.

In the long-term, the OEM business with players such as AGCO, CLAAS, Stara, and others is very important to the Precision Agriculture portfolio. Today the OEM portion of the overall market for Precision Ag remains relatively small but is growing. The near-term market opportunities remain in the after-market where Hemisphere GPS leads by volume shipped. There are nearly 3.5 million addressable after-market tractors and combines over 40 horsepower in North America alone. This is the strongest area of our business, and will continue to be a significant area of growth for years to come.

In 2008, Hemisphere GPS leveraged its innovation leadership, driving new product releases, patent awards and increasing growth and profitability. Hemisphere GPS announced 5 new patents in the past year for innovations in GPS positioning and automated steering, bringing the total number of patents issued or pending to nearly 50. The new patents are related to:

- Hemisphere's Crescent Vector technology used in marine navigation and various precise positioning and attitude determination applications.
- Outback Guidance BaseLineHD™ portable base station delivering real-time centimeter-level positioning for machine control applications.
- Implement steering technology which enables the position of an implement to be controlled while it is being towed behind a tractor or other self-propelled vehicle.
- Satellite-based vehicle guidance control in straight and contour modes used in its eDriveTC and GPSteer products
- Enabling the position of a towed agricultural implement to be controlled and maintained using GPS data. This technology enables farmers to cultivate precise and repeatable rows even with large and heavy towed implements, which are sometimes difficult to control.

Hemisphere GPS' Crescent technology is a leading L1 GPS technology known for its superior accuracy and robustness with exclusive patented techniques. Hemisphere GPS has shipped over 100,000 GPS receivers with the Crescent technology into a multitude of precision positioning, navigation and machine control applications.

We are increasingly being recognized for these innovations. We received the Alberta Science and Technology ("ASTech") Leadership Foundation Award for outstanding commercial achievement in science and technology for the Crescent L1 GPS receiver technology, as well as being awarded the Canadian Manufacturers and Exporters ("CME") Canadian Innovation Award for new technology.

We also earned a place on Deloitte's Green 15 list, which recognized companies creating innovative, important and economically viable intellectual property in the burgeoning field of green technology.

In closing, 2008 was a good year for Hemisphere GPS. We began 2009 in the midst of a very challenging global economic environment. However, the agriculture sector is likely to be one of the strongest in these economic conditions. There remains a strong value proposition of our Outback product line based on increased yield management and reduced driver fatigue. Continued high grain prices, increased cash receipts for farmers, pressures on farm operations from increased input costs, acceptance of Precision Agriculture technology and practices in farming, are all present in 2009 and support our value proposition.

Thank you for your continued support. I look forward to reporting to you on our progress during 2009.

Steven Koles
President & Chief Executive Officer
Hemisphere GPS Inc.




Management's Discussion and Analysis

Year ended December 31, 2008

Management's Discussion and Analysis

Year ended December 31, 2008

The following discussion and analysis is effective as of March 13, 2009 and should be read together with our audited annual consolidated financial statements and accompanying notes. Additional information related to Hemisphere GPS Inc., including the Company's Annual Information Form, can be obtained from documents filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on the internet at www.sedar.com. All amounts stated in this Management Discussion and Analysis ("MD&A") are in US dollars unless otherwise stated.

Overview

References throughout this document to Hemisphere GPS, Hemisphere, or the "Company" all refer to Hemisphere GPS Inc. and its subsidiaries.

The Company is engaged in the design, manufacture and sale of innovative, cost-effective GPS products for positioning, guidance and machine control applications in agriculture, marine and other markets. Hemisphere GPS organizes its activities along three primary product lines: ground agriculture products, aerial agriculture products and precision products for non-agriculture markets (including marine and geographic information systems). The primary vertical market for the Company's products is agriculture representing approximately 85% of its revenues. 70% of 2008 revenues were from customers in North America.

Recent Significant Events

Hemisphere GPS Inc. was formerly named CSI Wireless Inc. The Company received shareholder approval to change the name of the Company to Hemisphere GPS Inc. at the Special and Annual General Meeting of its shareholders on May 9, 2007.

On December 20, 2007, the Company announced that it had acquired all outstanding shares of Beeline Technologies Pty Ltd. ("BEELINE"), which complemented Ground Ag products in agricultural markets and provided access to new vertical markets. The financial results of Hemisphere GPS include the results of BEELINE after December 20, 2007.

Prior to 2006, the Company also carried out activities through its Wireless Business Unit, which included two primary product lines: Fixed Wireless Telephones and Telematics products. In early 2006, the Company announced its plans to exit the activities associated with its Wireless Business Unit. During 2006, the Company sold these product lines and the Wireless activities were treated as discontinued operations in the financial statements for 2007 and 2006.

The information in the Management's Discussion and Analysis (MD&A) contains certain forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. These statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, including: the impact of general economic conditions; industry conditions; changes in laws and regulations and changes in how they are interpreted and enforced; fluctuations in foreign exchange and interest rates; stock market volatility and market valuations; competition for, among other things, capital and skilled personnel; incorrect assessments of the value of acquisitions; stock market volatility and market valuations and changes in income tax laws. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits the Company will derive from them. Except as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Economic and Market Trends

Financial Markets

2008 saw extreme declines across a variety of financial markets resulting in substantial volatility and uncertainty on a global basis together with recessionary conditions in many economies. Hemisphere GPS was not immune from the impact of these economic conditions. In particular, agriculture-related customers are impacted by volatility in grain commodity prices associated with the agriculture markets, as well as input costs such as seed, gasoline and fertilizer. In addition, although it is unclear how these circumstances will impact customer purchasing in 2009, Hemisphere GPS remains cautiously optimistic about its business outlook for 2009. With a strong balance sheet including approximately $16.3 million of cash and no debt, the Company's Management believes that it is well positioned to weather the impact of these market conditions and to take advantage of opportunities that may arise.

Agriculture Markets

Conditions in the agricultural markets remain generally positive. In its December 2008 *Agricultural Income and Finance Outlook*, the US Department of Agriculture ("USDA") reports that *net farm income* – which includes both crop and livestock farms – will be a new record at $86.9 billion in 2008, little changed from $86.8 billion in 2007, but 42% higher than the 10-year average. *Net cash income* – which includes the carryover of 2007 crops – is projected to be 4% above 2007 levels.

Looking specifically at crop farms, 2008 net cash income is forecast to increase by 29% for wheat farmers, 25% for corn farmers and 22% for soybean farmers. These crops are the largest market segment for the Company's ground agriculture guidance products. Cotton and rice farms are expected to see a decline in net cash income of about 45%.

Overall, the value of crop production is forecast to be $181 billion, a 20% increase over 2007. However, offsetting the increase is an increase in production costs, resulting in the flat *net farm income* forecast for 2008. Crop prices remain high by historical standards, driven by lower grain inventory levels and increasing global demand, arising from growing demand for ethanol and other grain-based biofuels as well as the changing diets of emerging economies. Production cost increases arise from fertilizer, seed and fuel expenses, expected to rise by 64%, 28% and 26% respectively.

In spite of positive net farm and net cash income conditions, it remains uncertain how the volatile financial markets may impact farmer sentiment, and equipment purchases in 2009. However, the Company's Management views the fundamentals of the global agriculture markets to be positive for the mid to longer term.

Currency Markets

The Company's financial results are impacted by changes in foreign currency rates – particularly the Canadian/US dollar exchange rate. After weakening by approximately one-third from 2002 to 2007, the US dollar stabilized against the Canadian dollar in 2008 and the average rate for the year was largely flat with the average for 2007. However, the US dollar began to strengthen against the Canadian dollar during the last half of the year. The average foreign exchange rate for the fourth quarter of 2008 was $1.21 Cdn/US, up by 23% from the fourth quarter of 2007.

A stronger US dollar is positive for the Company's earnings as a portion of the Company's expenses are incurred in Canadian and Australian dollars. However, at the same time, the stronger dollar increases the cost of the Company's products in international markets – as sales are made in US dollars.

Change in Reporting Currency

Prior to 2008, the Company prepared and reported its financial statements in Canadian dollars. As the Company has grown, its operations have expanded significantly in the United States ("US"). A substantial portion of the Company's revenues and expenses are denominated in US dollars. In addition, most of the Company's competitors and comparable companies report in US dollars. In order to improve the comparability of the Company's publicly reported results with competitor and comparable companies, the Company elected to adopt the US dollar as its *reporting* currency for its 2008 fiscal year. The Company continues to have a Canadian dollar *measurement* currency for its consolidated operations.

In effecting this change, the Company has followed the recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants, set out in EIC-130, *Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency*. Based on the recommendations of EIC-130, the financial statements for all periods presented have been translated into US dollars using the Current Rate method. Under this method, the statements of operations and cash flows for each period have been translated into the reporting currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheet dates. Shareholders' equity has been translated using the rates of exchange in effect as of the dates of the various capital transactions. All exchange differences resulting from the translation are included in accumulated other comprehensive income in shareholders' equity. All comparative information has been restated to reflect the Company's results as if they had been historically reported in US dollars.

Canadian and US dollar exchange rates prevailing during 2007 and 2008 are as follows:

	Quarter Ended							
	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008
Quarterly average	$ 1.1716	$ 1.0981	$ 1.0446	$ 0.9818	$ 1.0041	$ 1.0100	$ 1.0418	$ 1.2125
Quarter end	$ 1.1529	$ 1.0634	$ 0.9963	$ 0.9881	$ 1.0279	$ 1.0186	$ 1.0599	$ 1.2246

These foreign exchange rates are sourced from the Bank of Canada. Quarterly averages are the average of the three months' average rate for the period. The quarter end rate is equal to the Bank of Canada Noon Day Rate on the last published day in the quarter.

All financial information referenced in this Management Discussion and Analysis is denominated in US dollars, unless otherwise indicated.

Results of Operations

(000's) (expressed in U.S. dollars)	Years Ended December 31 2008	2007 (audited)	2006
Sales	$ 72,664	$ 53,661	$ 40,420
Gross margin	36,804	25,277	16,308
	50.6%	47.1%	40.3%
Expenses			
Research and development	8,098	4,950	4,181
Sales and marketing	12,009	9,242	8,191
General and administrative	7,190	5,593	4,993
Stock-based compensation	700	614	668
Amortization	3,427	2,258	2,213
	31,424	22,657	20,246
Income (loss) before undernoted items	5,380	2,620	(3,938)
Foreign exchange (gain) loss	(626)	639	572
Interest income	(405)	(390)	(196)
Other income	(263)	–	–
Restructuring costs	251	–	929
Legal fees on settlement of lawsuit	151	2,950	236
Loss (gain) on sale of marketable securities	–	35	(922)
Income (loss) before income taxes	6,272	(614)	(4,557)
Income taxes	176	–	–
Income (loss) from continuing operations	6,096	(614)	(4,557)
Loss from discontinued operations	–	274	12,904
Net income (loss)	$ 6,096	$ (888)	$ (17,461)
Income (loss) per common share from continuing operations: Basic and diluted	$ 0.11	$ (0.01)	$ (0.10)
Income (loss) per common share: Basic and diluted	$ 0.11	$ (0.02)	$ (0.38)

Selected Balance Sheet Information

	As at December 31 2008	2007	2006
Total assets	87,655	99,819	56,485
Long-term debt	–	–	–

Year Ended December 31, 2008 versus Year Ended December 31, 2007

Beeline Acquisition

On December 20, 2007, the Company completed the acquisition of all outstanding common shares of Beeline Technologies Pty Ltd. ("Beeline"). Beeline, based in Brisbane, Australia, was a precision guidance software developer, providing intelligent high-end GPS guidance and auto-steering solutions for agriculture equipment and autonomous control solutions for other machine control applications including mining and construction. Total consideration paid was $21.7 million and the operations of Beeline have been integrated into the Ground Agriculture operating segment of the Company and are reflected in the financial results after December 20, 2007. Additional details relating to the acquisition are included in note 2 of the consolidated financial statements.

Revenues

For the year ended December 31, 2008, revenues were a record for the Company at $72.7 million representing an increase of 35% from $53.7 million in 2007.

Revenues from each of the Company's operating segments were as follows in 2008 and 2007:

(000's)	2008	2007	Growth
Ground Agriculture	$ 55,613	$ 41,407	34%
Air	6,157	4,718	31%
Precision Products	10,894	7,536	45%
	$ 72,664	$ 53,661	35%

Ground Agriculture and Air revenues in 2008 experienced strong growth of 34% and 31% as a result of continuing strength in agricultural markets, particularly in the first half of the year. Revenue growth was driven by strong grain prices that lead to record 2007 net farm income in the United States, and had a similar impact on farmers in other countries. The record net income levels in turn drove stronger sales of ground and air-based agricultural guidance products.

The most significant revenue growth from the Company's Ground Agriculture products was from the Outback S3™, introduced in February 2008 and the Outback S-Lite™ introduced late in 2007 – both of which were very favourably received by the markets. Auto-steering products continued their strong momentum with the Company's eDriveTC™ product once again representing the largest single revenue-generating product for the Company. Software revenues associated with the acquisition of Beeline in December 2007 also contributed to the increase in Ground Agriculture product sales.

Even stronger growth of 45% was seen in Company sales to non-agriculture markets through the Precision Products segment - including sales to marine, GIS and original equipment manufacture ("OEM") customers. Revenues for these products are benefiting from a focus in 2007 and 2008 to expand and focus the Precision Products sales channels around the world. Strong growth was realized in sales of GPS receivers and board level GPS equipment to OEM and custom integrators as well as from the Company's line of Vector heading sensor products.

During 2008, North American sales grew by 32%, whereas sales outside of North America showed even stronger growth of 44%. Sales to Europe and South America showed the highest levels of growth from 2007. In aggregate, sales to North America were about 70% of total revenues (2007 – 72%) and sales to non-North American customers were 30% (2007 – 28%) of total revenues.

Gross Margins

The Company reported gross margins of $36.8 million in the year, an increase of 46% relative to gross margins of $25.3 million in 2007. Gross margins, as a percentage of revenue, were 51% in 2008 compared to 47% in 2007.

The revenues from the Beeline acquisition are earned as software revenues giving rise to very high gross margins that contributed to the increase in gross margins during the year. In addition, the Company continues to focus substantial efforts on cost reduction through procurement, manufacturing and design initiatives. The Company's initiative to outsource higher volume products to a manufacturing partner in China contributed significantly to the improved gross margin in 2008.

While there was some price pressure in the Ground Agriculture markets, the introduction of new products and cost reduction initiatives resulted in improved margins compared to 2007. Margins realized in the Precision Products group improved from 2007 as a result of cost reduction initiatives and from price increases.

Expenses and Other

Operating expenses were $31.4 million in 2008, up by 39% from $22.7 million in 2007. On a percentage basis, operating expenses were 43% of revenue in 2008 versus 42% in 2007. The most significant item driving increased expenses in 2008 was the acquisition of Beeline. Although the Beeline operations have been fully integrated with the Ground Agriculture segment, the Company estimates that "Beeline-related" expenses total approximately $4.2 million for the year. In addition, accruals under the Company's performance incentive plan increased operating expenses in 2008, as 2007 accruals were not significant.

Investment in Research and Development

Investment in research and development for 2008 was $8.1 million compared to $5.0 million in 2007 representing an increase of 62%. The increase is primarily related to the Beeline acquisition and from other headcount-related increases, including accruals under the performance incentive plan.

2008 research and development was 11% of revenue compared to 9% in 2007. Prior to the acquisition of Beeline, the Company targeted research and development to be 10% of revenue in order to maintain an appropriate investment level to maintain and expand its portfolio of technology and products. Following the acquisition of Beeline, which included a highly experienced engineering team, the Company expects its investment in research and development to be at least 11% of revenue.

Many of the research and development costs incurred in Canada qualify for scientific research and experimental development income tax treatment. This includes the elective deferral of research and development expenses and the eligibility for such expenses to earn investment tax credits. Research and development costs incurred in the United States and Australia also qualify for tax credits and other income tax concessions in certain circumstances.

Selling and General and Administrative Expenses

Sales and marketing expenses were $12.0 million in 2008, up by 30% from $9.2 million in 2007. General and administrative ("G&A") expenses of $7.2 million, prior to the legal expenses discussed below, increased by $1.6 million or 29% from $5.6 million in 2007. Expenses increased in both categories as a result of increased revenue and activity levels, as well as from the Beeline acquisition.

During the fourth quarter of 2008, the Company concluded a settlement with another party relating to a $35 million lawsuit filed against Hemisphere GPS in 2006. Management viewed the lawsuit to be without merit, however, in order to effectively dismiss the lawsuit the Company negotiated to pay a nominal amount as part of the settlement agreement that was considerably lower than estimated legal fees to continue defending the lawsuit. Total costs of $152 thousand associated with this lawsuit in 2008 have been reported separately in the Consolidated Statement of Operations in order to reflect the impact of these costs on current and past financial results.

In the third quarter of 2007, Hemisphere GPS was awarded a non-infringement judgment in a patent infringement lawsuit originally initiated by another party in 2002. Following the positive decision, a confidential settlement agreement was concluded between Hemisphere GPS and the party, whereby all other outstanding patent infringement lawsuits between the companies were dismissed. The Company incurred $2.9 million of legal expenses related to this matter in 2007 that were separately disclosed.

Amortization Expense

Amortization expense was $3.4 million in 2008, an increase of $1.1 million or 48% from $2.3 million in 2007. The increase is primarily a result of the amortization of the intangibles acquired as part of the Beeline acquisition.

Interest, Foreign Exchange and Other Income

In 2008, the Company recorded interest income of $0.4 million compared to interest income of $0.4 million in 2007. Throughout the year the Company earned interest income on its cash balance, which was offset by interest expense on capital leases. Interest expense was lower in 2008 as a result of the payout of long term debt in early 2007 and the capital leases during 2008.

The Company realized a foreign exchange gain of $0.6 million during 2008 compared to a loss of $0.6 million in 2007. The foreign exchange gains/losses reported in the Consolidated Statement of Operations arise primarily from the impact of the fluctuating US dollar on the translation of US dollar denominated working capital. While the US dollar was adopted as the Company's reporting currency, the measurement currency remains the Canadian dollar. As a result, the Company remains exposed to foreign currency translation and transaction gains and losses on US dollar denominated working capital.

The Company has a foreign currency risk management program to mitigate the impact of foreign currency fluctuations on US dollar working capital. During 2008, net foreign currency risk management losses of $4.1 million were realized under this program compared to gains of $2.0 million during 2007. Foreign currency risk management gains and losses are netted against the 2008 foreign exchange gain of $0.6 million and the 2007 foreign exchange loss of $0.6 million. The Company's foreign currency risk management program is described in the Liquidity and Capital Resources section of this MD&A.

The Company also realized other income of $0.3 million during the year.

Restructuring Costs

Restructuring costs of $0.3 million were incurred during the fourth quarter of 2008 arising from activities focused on improving the efficiency of the Company's manufacturing and sales activities including the closure of the Company's office in Euless, Texas which is expected to be completed before the end of the second quarter of 2009.

There were no restructuring costs in 2007. Restructuring costs of $1.0 million were incurred in 2006 associated with senior management changes and corporate restructuring activities related to the transition of the Company to a pureplay GPS strategy.

Sales of Marketable Securities

During 2007 and 2006, the Company sold common shares of Telular Corporation that it had received in connection with the sale of the Company's Fixed Wireless Telephone business during 2006. These sales gave rise to a loss of approximately $35 thousand in 2007 and a gain of $.0.9 million in 2006.

Income taxes

For the year ended December 31, 2008, the Company recorded current income tax expense of $0.2 million relating to its US operations. US alternative minimum tax ("AMT") is payable on US alternative minimum taxable income, in spite of the availability of tax losses which fully shelter US taxable income for ordinary corporate tax purposes. AMT payable will be fully creditable against future US corporate income taxes, however, at December 31, 2008, no benefit for this potential recovery has been recorded as an asset in these financial statements.

In Canada, at the end of 2008, Hemisphere GPS Inc. has loss carry forwards of $6.9 million that can be used to reduce Canadian taxable income in future years, as well as investment tax credits in the amount of $2.0 million that can be used to reduce Canadian federal taxes otherwise payable in future years.

The Company's US operating subsidiaries, Hemisphere GPS Corporation, Hemisphere GPS LLC and CSI Wireless LLC, file as a combined entity for US federal tax purposes. At December 31, 2008, the Company has cumulative US net operating losses of $15.9 million that can be used to reduce US taxable income in future years, as well as $3.6 million of general business credits that can be used to reduce federal taxes otherwise payable in future years.

The Company's Australian subsidiaries, Hemisphere GPS Pty Ltd. and Hemisphere GPS AUS Pty Ltd., file as a combined entity for Australian income tax purposes. At December 31, 2008, the Company has losses of approximately $2.1 million available to reduce Australian taxable income in future years.

Discontinued Operations

During 2006 the Company divested the key assets of its Telematics and Fixed Wireless Telephone product lines, which comprised the Wireless Business Unit. These activities were wound down during 2006 and 2007. After 2007, there have been no material activities related with the discontinued operations. The Company recorded a loss from discontinued operations of $0.3 million for the year ended December 31, 2007 and a loss of $12.9 million in 2006. Summarized annual results for the discontinued operations during these periods are as follows:

(000's)	2008	2007	2006
Sales	$ –	$ –	$ 14,524
Gross margin	–	–	2,015
Operating expenses	–	443	7,340
Loss before the following	–	443	5,325
Gain on sale of patents	–	(169)	–
Impairment of property and equipment	–	108	–
Other income	–	(108)	–
Gain on sale of product lines	–	–	(335)
Severance and wind-down costs	–	–	937
Interest income	–	–	(23)
Goodwill impairment	–	–	7,000
Loss from discontinued operations	$ –	$ 274	$ 12,904

Earnings

In 2008, the Company earned net income of $6.1 million or $0.11 per share (basic and diluted), compared to a loss of $0.9 million or $0.02 per share (basic and diluted) in 2007.

Summary of Quarterly Results

	For the Quarter Ended							
(000's)	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008
Sales	$ 16,648	$ 14,473	$ 9,069	$ 13,471	$25,909	$ 23,037	$ 13,201	$10,518
Gross margin	8,247	6,752	4,198	6,079	13,074	12,088	6,815	4,826
	50%	47%	46%	45%	51%	53%	52%	46%
Expenses:								
Research and development	1,081	1,181	1,240	1,449	1,804	2,026	1,943	2,324
Sales and marketing	2,639	2,006	1,855	2,742	3,298	3,299	2,729	2,683
General and administrative	1,137	1,440	1,291	1,726	1,966	2,168	1,657	1,399
Stock-based compensation	188	168	126	133	128	221	190	161
Amortization	515	511	559	673	928	911	861	728
	5,559	5,306	5,070	6,721	8,124	8,626	7,380	7,295
Earnings (loss) before undernoted items	2,688	1,446	(871)	(642)	4,951	3,462	(564)	(2,469)
Foreign exchange (gain) loss	(40)	249	404	27	(594)	323	(242)	(112)
Interest income	(63)	(133)	(100)	(94)	(115)	(92)	(89)	(109)
Other income	–	–	–	–	(263)	–	–	–
Legal fees on settlement of lawsuit	541	966	1,347	96	–	–	–	151
Restructuring costs	–	–	–	–	–	–	–	251
Gain (loss) on sale of marketable securities	–	(35)	–	–	–	–	–	–
Earnings (loss) before income tax	2,250	329	(2,522)	(671)	5,923	3,232	(233)	(2,650)
Income tax	–	–	–	–	114	62	–	–
Earnings (loss) before discontinued operations	2,250	329	(2,522)	(671)	5,809	3,170	(233)	(2,650)
Income (loss) from discontinued operations	(90)	(111)	(102)	29	–	–	–	–
Net earnings (loss)	$ 2,161	$ 218	$ (2,634)	$ (642)	$ 5,809	$ 3,170	$ (233)	$ (2,650)
Earnings (loss) per common share from continuing operations *:								
Basic and diluted	$ 0.05	$ 0.01	$ (0.05)	$ (0.01)	$ 0.11	$ 0.06	$ (0.00)	$ (0.05)
Net earnings (loss) per common share *:								
Basic and diluted	$ 0.05	$ 0.00	$ (0.06)	$ (0.01)	$ 0.11	$ 0.06	$ (0.00)	$ (0.05)

** Calculated using quarterly weighted average number of shares outstanding.*

Sales by segment on a quarterly basis are as follows:

	For the Quarter Ended							
(000's)	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008
Ground Agriculture	$ 13,864	$ 11,589	$ 5,585	$ 10,369	$ 20,417	$ 18,641	$ 9,021	$ 7,534
Air	1,252	1,134	1,276	1,056	2,743	1,406	1,125	883
Precision Products	1,532	1,750	2,208	2,046	2,749	2,990	3,055	2,100
	$ 16,648	$ 14,473	$ 9,069	$ 13,471	$25,909	$ 23,037	$ 13,201	$10,517

Quarterly results have varied during the past eight quarters due, in part, to the following factors:

1. A large component of Hemisphere GPS agriculture-related revenues are derived from the North American markets which are subject to the seasonality of the agricultural buying season with the first half of the year being the strongest and the second half being the weakest. Initiatives to mitigate the seasonality include increasing sales efforts in the Southern Hemisphere which is generally counter-seasonal to the Northern hemisphere agricultural seasons and increasing sales efforts on non-agriculture markets.

2. The acquisition of Beeline occurred in December 2007 and impacted revenues and expenses after the date of closing. The operations of Beeline have been fully integrated into the Ground Agriculture segment.

3. The volatility and decline of the financial and commodities markets during the last half of 2008 had a significant impact on customers purchasing – particularly during the fourth quarter of 2008. OEM, international and retail customers in each of the Company's segments responded to the economic conditions by reducing purchases in light of the associated uncertainty.

Quarter Ended December 31, 2008 versus Quarter Ended December 31, 2007

Revenues

Revenues from each of the Company's operating segments during the fourth quarter were as follows:

(000's)	2008	2007	Change
Ground Agriculture	$ 7,534	$ 10,369	-27%
Air	883	1,056	-16%
Precision Products	2,100	2,046	3%
	$ 10,517	$ 13,471	-22%

Fourth quarter revenues of $10.5 million declined by 22% from revenues of $13.5 million in the fourth quarter of 2007. The decline was attributable to lower sales in the Ground Agriculture and Air operating segments. Management believes that a very later harvest in the United States decreased buying activity in the fourth quarter. In addition, sales were likely impacted by the uncertainty associated with the decline in global financial markets during the last half of 2008. While the Company believes that agriculture fundamentals remain solid, the current market circumstances impacted fourth quarter purchasing decisions in all areas of business. While revenues from the Precision Products segment increased by 3% in the fourth quarter, this was significantly lower than growth in previous quarters – which was 60% in the first three quarters of the year.

On a regional basis, North American sales declined by 14% compared to the fourth quarter of 2007. Sales from outside of North America declined at a greater rate of 36% in the fourth quarter compared to 2007 – with the greatest decline from Ground Agriculture sales to Australia.

Gross Margins

Gross margins in the fourth quarter of 2008 were 46% and $4.8 million, compared to 45% and $6.1 million in the fourth quarter of 2007. Gross margins improved from 2007 as a result of product cost reductions from outsourcing, design and manufacturing initiatives, however, this improvement was offset in the fourth quarter by the impact of pricing promotions, growth-related annual dealer incentives and the impact of fixed manufacturing costs on a lower revenue level.

Expenses and Other

Operating expenses of $7.3 million in the fourth quarter were up 9% from $6.7 million in the fourth quarter of 2007. The acquisition of Beeline was the primary factor driving increased expenses during the fourth quarter. Although the Beeline operations have been fully integrated with the Ground Agriculture segment, the Company estimates that “Beeline-related” expenses total approximately $1.0 million in the fourth quarter. Operating expenses in the fourth quarter were favourably impacted by a stronger US dollar as both Canadian and Australian based operating expenses are translated into US dollars for reporting purposes.

Research and development expenses increased by 60% relative to 2007 as a result of the Beeline acquisition, other headcount increases, increased activity/project levels and as a result of the “true-up” of the incentive plan accrual recorded during the first three quarters. Sales and marketing expenses decreased by 2% from the fourth quarter of 2007 with lower variable costs associated with revenue, such as commissions. General and administrative expenses decreased from the fourth quarter of 2007 by 19%. This was primarily due to a “true-up” in the fourth quarter of the incentive plan accrual recorded during the first three quarters.

Interest and Foreign Exchange

Interest income, net of expense, in the fourth quarter of 2008 was $109 thousand compared to $94 thousand in the same quarter of 2007. The Company earned interest income primarily on its cash balance, which was offset by interest expense on capital leases – which were repaid during 2008.

The Company realized a foreign exchange gain in the fourth quarter of $112 thousand, net of a foreign currency risk management loss of $3.3 million, compared to a foreign exchange loss in the fourth quarter of 2007 of $27 thousand, net of a foreign currency risk management gain of $93 thousand. The Company's foreign currency risk management program is described in the Liquidity and Capital Resources section of this MD&A.

Discontinued Operations

The Company had no activity from discontinued operations in the fourth quarter of 2008, whereas it earned income from discontinued operations of $29 thousand for the quarter ended December 31, 2007.

Earnings

In the fourth quarter of 2008, the Company incurred a loss from continuing operations of $2.6 million, or ($0.05) per share (basic and diluted), compared to a fourth quarter 2007 loss of $0.6 million or ($0.01) per share (basic and diluted).

Liquidity and Capital Resources

Working Capital

The Company held cash at December 31, 2008 of $16.3 million compared to $13.5 million at the end of 2007.

Accounts receivable at December 31, 2008 was $7.4 million, versus $7.1 million at December 31, 2007. In North America, the Company's *Outback*™ Ground Agriculture product line is generally sold directly to end customers and these sales typically take place with prepayment by cash, credit card or other financing options. Therefore, the accounts receivable balance represents primarily sales of non-Outback product lines, or sales of Outback products outside of North America. Hemisphere GPS employs established credit approval and regular account monitoring practices to mitigate the credit risk associated with accounts receivable. At December 31, 2008, the Company had a reserve for potential bad debts totaling $219 thousand compared to $108 thousand at the end of 2007.

Inventories consist of components, work in process and finished goods related to the products manufactured and sold by the Company. Inventory levels declined from $15.3 million at December 31, 2007 to $14.0 million at the end of December 2008. The Company has carried out a number of initiatives focused on improving the efficiency and effectiveness around its inventory and cost of sales including the implementation of a new manufacturing resource planning ("MRP") system in 2006 and 2007, increased focus on detailed sales forecasting and product end-of-life planning, and the outsourcing of manufacturing for higher volume products. This improved efficiency has resulted in an improvement in inventory turnover, calculated on a last-twelve-month basis, from 1.9 times at the end of 2007 to 2.6 times at the end of 2008. Management is targeting further improvements in this measure moving forward.

Foreign Currency Risk Management Program

While the Company has adopted the US dollar as the reporting currency, the Canadian dollar remains the measurement currency. As a result, fluctuations in the Canadian dollar to US dollar foreign exchange rate impacts the translated value of the Company's working capital denominated in US dollars - giving rise to foreign currency translation gains and losses. The Company has implemented a foreign currency risk management program to mitigate the impact of foreign currency fluctuations.

The Board of Directors has approved the execution of financial instruments with a maximum notional value of US$40 million which have the objective of offsetting the exposure the Company faces by carrying positive US dollar working capital. The Company enters financial instruments which are settled for cash using the Bank of Canada noon day rate as the reference foreign exchange rate.

During 2008, the Company recorded a foreign exchange gain of $626 thousand, which is net of foreign currency risk management losses of $4.1 million under the foreign currency risk management program. In 2007 the Company had a foreign exchange loss of $639 thousand, which is net of foreign currency risk management gains of $2.0 million under the program.

At December 31, 2008, the Company had financial instruments outstanding as follows relating to this program:

	Notional Value (000's)	Expiry Date	Fixed Foreign Exchange Rate	Fair Value at December 31, 2008
Financial instrument 1	US$ 18,500	March 31, 2009	$ 1.0573	$ (2, 523)
Financial Instrument 2	5,500	January 15, 2009	$ 1.0581	(747)
	US$ 24,000			$ (3,270)

The fair value of the outstanding financial instruments was calculated using the forward foreign exchange rate as of the date of expiry of the instruments. The fair value has been recorded as a current liability in the Consolidated Balance Sheet and a hedging loss, netted against foreign exchange gains/losses in the Consolidated Statement of Operations.

Property and Equipment

The Company's capital assets are primarily comprised of computer hardware and software and equipment for production and research purposes. In addition, capital assets include furniture and fixtures, vehicles and leasehold improvements.

During 2008, the Company invested $1.6 million in property and equipment compared to $1.0 million in 2007 (which excludes assets acquired related to the Beeline acquisition). The most significant 2008 capital additions included: equipment related to the implementation of voice-over-IP ("VOIP") telephone services in Company locations; equipment to align the Brisbane office with the Company's IS/IT standards; leasehold improvements, as well as furniture and fixtures, in new office space in Scottsdale and Winnipeg; and an anechoic chamber for research and development activities in Scottsdale.

Intangible Assets

Intangible assets include assets acquired through acquisition including trademarks and brands, customer relationships, marketing and distribution assets and technology. The Company's intangible assets have accrued as a result of the following acquisitions:

- Outback marketing and distribution assets – April 2005
- Del Norte Technologies business assets – January 2006
- Beeline Technologies Pty Ltd. – December 2007

No intangible assets were acquired in 2008.

Goodwill

Goodwill has accrued in the following acquisitions:

- Satloc business assets – March 1999
- Outback marketing and distribution assets – April 2005
- Del Norte Technologies business assets – January 2006
- Beeline Technologies Pty Ltd. – December 2007

Effective December 31, 2007, 1,500,028 common shares became issuable to RHS, Inc. ("RHS") under performance warrants issued to RHS as part of the acquisition of the Outback business assets in April 2005. Additional common shares were payable under the performance warrants based on revenue and profitability for the years 2005 to 2007. The common shares were issued on April 8, 2008 following completion of the audit of the Consolidated Financial Statements for 2007. The shares issued were valued at Cdn$3.54 per share and were accounted for as additional consideration for the acquisition resulting in additional goodwill in the December 31, 2007 Consolidated Financial Statements.

In accordance with Canadian generally accepted accounting principles, Management has completed an assessment of the carrying value of the goodwill reported in the Consolidated Balance Sheet at December 31, 2008 and concluded that no impairment exists as of that date.

The share price of the Company's common shares at December 31, 2008 was Cdn$1.40, implying a market capitalization of $63.8 million as compared to shareholders' equity of $75.2 million.

In completing its goodwill assessment in accordance with Canadian generally accepted accounting principles, Management has concluded that there is no impairment of goodwill at December 31, 2008. In completing this assessment, Management considered a variety of factors, including:

- the share price at December 31, 2008, the average for 2008, and share prices subsequent to December 31, 2008;
- trailing and forecasted earnings;
- valuations of comparable publicly traded companies in Canada and the United States;
- the impact of premiums to obtain control of companies on valuations for transactions in the public markets;
- the impact on share prices of reduced liquidity in the public markets;
- the expected impact of negative financial markets on the Company's business activities; and
- estimated valuations of the Company by third party analysts.

Borrowings and Credit Facilities

The Company has a bank operating line of credit with a maximum limit of $7 million. The available borrowing limit under this operating line is determined based on trade receivables and inventory levels. The utilization of this line of credit draws interest at prime plus 0.5%. The Corporation has entered into a general security agreement with its bank to secure such indebtedness. There were no balances drawn against this line of credit at the end of 2008 or 2007.

Share Capital

At March 13, 2009, there were 55,561,676 common shares outstanding.

On December 27, 2007 the Company completed a private placement of 5,555,600 special warrants, issued at a price of $3.15 per special warrant, for total gross proceeds of $17.5 million. Net proceeds were $16.3 million after deducting fees and expenses. The special warrants were deemed to have been exercised on March 26, 2008 following regulatory approval of a prospectus relating to the transaction and common shares were issued.

During 2008, 631,907 stock options (2007 – 248,360) were exercised for cash proceeds of $1.2 million (2007 - $0.4 million).

On September 10, 2008 the Company announced a Normal Course Issuer Bid to purchase for cancellation, from time to time, up to 2,822,204 of its issued and outstanding common shares (being no greater than 5% of the issued and outstanding common shares at September 10, 2008) on the open market through the facilities of the Toronto Stock Exchange. During the remainder of the year, the Company purchased 945,200 common shares at an average price of Cdn $2.07. 718,500 of these shares were cancelled during 2008 and the remaining 226,700 shares were cancelled in early 2009. The repurchase resulted in a reduction in share capital of $1.5 million, an increase in contributed surplus of $0.3 million and an immaterial increase in the deficit.

Cash Flow

Hemisphere GPS generated $6.5 million of cash from operations in 2008 after the net change in non-cash operating working capital, a $7.3 million improvement from 2007. A substantial increase in net income compared to 2007 was the primary factor in this improvement.

During the year, net proceeds of $1.1 million were received for the issue of common shares – primarily as a result of the exercise of stock options. Cash outflows during the year included $1.7 million of cash used for the repurchase of common shares under the Normal Course Issuer Bid and $1.6 million for the purchase of property and equipment.

Hemisphere GPS ended the year with cash of $16.3 million. Giving consideration to the uncertainty associated with global financial markets, Management believes that its business prospects, together with a strong balance sheet, put the Company in a good position moving forward in 2009 and to weather negative conditions that may continue in 2009. Historically, the first and second quarters of each calendar year represent the strongest period of cash generation from operations for the Company.

Related Party Transactions

During the year the Company had transactions with RHS, Inc. ("RHS"), from whom the Company acquired the Outback business assets in 2005. RHS is a company wholly-owned by a director and former member of the Company's senior management team. The details, including the business purpose of the transactions, the recorded amounts and the measurement basis used is provided in note 12 of the consolidated financial statements.

Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. The preparation of these financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based on Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances. Such assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

1. The Company maintains an allowance for doubtful accounts for estimated losses that may occur if customers are unable to pay balances owing to the Company. This allowance is determined based on a review of specific customers, historical experience and economic circumstances.
2. Inventories are carried at the lower of cost and net realizable value. Provisions for excess or obsolete inventory are recorded based on Management's assessment of the estimated net realizablevalue of component, work in process, and finished goods inventory.
3. The Company performs the required test for goodwill impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In performing the required test, Management estimates the future cash-flows of each of its reporting units.
4. The Company evaluates its future tax assets and records a valuation allowance where the recovery of future tax does not meet the required level of certainty. At December 31, 2008, valuation allowances are provided for the full amount of future tax assets, such that there are no balances carried in the Consolidated Balance Sheet for such assets.
5. The Company accrues reserves for product warranty expenses for the repair or replacement of defective products sold. The warranty reserve is based on an assessment of the historical experience of the Company. If the Company suffers a decrease in the quality in its products, an increase in warranty reserve may be required.

Business and Market Risks

The nature of the Company's business gives rise to certain risks that may impact future financial results. In addition to risks described elsewhere in this report, the Company identifies the following risks to currently be the most significant:

1. *Financial Results*
   The Company was profitable for the full year of 2008, however incurred losses during the last two quarters, as well as during the years ended December 31, 2005, 2006 and 2007. While 2004 was a profitable year, the Company incurred losses in each of the three years prior to 2004.

It is possible that losses will occur in any of the four quarters of 2009 and that a loss could be realized for the full 2009 year. This could arise from the impact of current negative macro-economic conditions, or the Company could fail to execute on its business plan. Future revenues, gross margins and expenses are subject to many factors beyond the Company's control, including:

- the liquidity and business plan execution of customers;
- general industry conditions;
- the rate of acceptance of the Company's products;
- new technologies in the marketplace;
- the development and timing of the introduction of new products;
- price and product competition from competitors;
- the product mix of the Company's sales;
- possible delays in manufacturing or shipment of the Company's products;
- possible delays or shortages in component supplies;
- other risk factors described in this MD&A; and
- other risk factors not foreseen at this time.

2. *Foreign Currency Valuation Fluctuations*

Sales of the Company's products are transacted primarily in US dollars. Expenses are incurred in US dollars, Canadian dollars and Australian dollars, and as a result, the Company is exposed to risk associated with US, Canadian and Australian dollar currency fluctuations. A weakening in the US dollar relative to the Canadian dollar, as was seen over the years 2003 to 2007, results in higher relative US dollar expenses for the Company when compared to a stronger US dollar.

The Company denominates substantially all of its sales in US dollars. A stronger US dollar, compared to the currencies of countries where Hemisphere GPS is selling its products, makes the Company's products more expensive to customers in those countries. As a result a strengthening US dollar, as was seen during the last half of 2008 – and is continuing in early 2009 – could have a negative impact on sales to such countries. As the Company expands with increased global sales, it is expected that it may be necessary to transact sales in foreign currencies other than US dollars, thus exposing the Company to additional foreign currency risk.

In 2008, the Company entered into derivative financial instruments to manage the foreign currency exposure of US dollar denominated working capital under its board-approved foreign exchange risk management program. Although this program has been implemented, there is no guarantee the Company will not experience foreign exchange gains and losses in future periods.

3. *General Economic and Financial Market Conditions*

In 2008, the Company faced extremely negative conditions in global economic, financial and product markets. Continued or increasingly negative conditions in market and business environments, or adverse geopolitical events, could have a negative impact on the Company's 2009 performance. The Company's agricultural product sales have typically been affected to some extent each year by drought conditions in certain markets. For example, a drought has continued for several years in significant regions in Australia which has negatively impacted sales of agriculture guidance products into that market. Should negative weather conditions arise in any of the Company's key markets in 2009, the Company could realize lower-than-expected revenues in the impacted market areas.

4. *Dependence on Key Personnel and Consultants*

The Company's success is largely dependent upon the performance of personnel and key consultants. The unexpected loss or departure of any key officers, employees or consultants could be detrimental to the future operations. The success of the Company will depend, in part, upon the ability to attract and retain qualified personnel, as they are needed. The competition for highly skilled technical, research and development, management, and other employees is high in the GPS industry. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

5. *Competition*

The Company is competing in a highly competitive industry that is constantly evolving and changing. The Corporation expects this competition to increase as new competitors enter the market. Many of our competitors have greater financial, technical, sales, production and marketing resources. We compete with companies that also have established customer bases and greater name recognition. This may allow competitors to respond more quickly to the GPS market and to better implement technological developments. There is no assurance that the Company will be able to compete on the same scale as these companies. Such competition may result in reduced sales, reduced margins or increased operating expenses.

6. *Third Party Dependence*

Many of the Company's products rely on signals from satellites, and other ground support systems, that it does not own or operate. Such satellites and their ground support systems are complex electronic systems subject to electronic and mechanical failures and possible sabotage. The satellites have limited design lives and are subject to damage by the hostile space environment in which they operate. If a significant number of satellites were to become inoperable, there could be a substantial delay before they are replaced with new satellites. A reduction in the number of operating satellites would impair the current utility of the Global Positioning System ("GPS") and/or the growth of current and additional market opportunities, which would adversely affect our results of operations. In addition, there is no assurance that the US government will remain committed to the operation and maintenance of GPS satellites over a long period of time or that the policies of the US government for the commercial use of GPS without charge will remain unchanged.

7. *Dependence on New Products*

The Company must continue to make significant investments in research and development to develop new products, enhance existing products and achieve market acceptance for such products. However, there can be no assurance that development-stage products will be successfully completed or, if developed, will achieve significant customer acceptance. If the Company is unable to successfully define, develop and introduce competitive new products, and enhance existing products, future results would be adversely affected.

8. *Intellectual Property*

The industry in which the Company operates has many participants that own, or claim to own, proprietary intellectual property. The Company has received, and may receive, claims from third parties claiming that the Company has infringed on their intellectual property rights. Determination of the rights to intellectual property is very complex, and costly litigation may be required to establish if the Company has violated the intellectual property rights of others. As a result of such claims, the Company could be subject to losses arising from product injunctions, awards for damages and third party litigation costs, requirements to license intellectual property, legal expenses, diversion of Managements' time and attention, and other costs.

9. *Government Regulation*

The Company's products are subject to government regulation in the United States, Canada and other regions in which we operate. Although the Company believes that it has obtained the necessary approvals for the products that it currently sells, it may not be able to obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or the Company may not be able to obtain regulatory approvals from countries in which it may desire to sell products in the future.

10. *Availability of Key Supplies*

The Company is reliant upon certain key suppliers for raw materials and components, and no assurances can be given that we will not experience delays or other difficulties in obtaining supplies, as a result of trade disputes, financial failures impacting suppliers, or from a variety of other potential issues. The raw materials used in certain operations are available only through a limited number of vendors. Although the Company believes there are alternative suppliers for most of its key requirements, if current suppliers are unable to provide the necessary raw materials or fail to deliver products in the quantities required on a timely basis, then the related delays in the manufacture or

distribution of products could have a material adverse effect on the Company's results of operations and its financial condition.

11. *Credit Risk*
The Company has undergone significant sales growth resulting in a significant growth in its customer base. As a result, the Company has an increasing exposure to credit risk related to trade balances owing from customers. In the normal course of business, the Company monitors the financial condition of its customers and reviews the credit history of new customers to establish credit limits. The Company establishes an allowance for doubtful accounts that corresponds to the credit risk of its customers, historical trends and economic circumstances. Losses could be realized by the Company if customers default on their balances owing.

12. *Technology Risk*
The Company's success in the GPS markets may depend in part on our ability to develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. The Company's products embody complex technology that may not meet those standards, changes and preferences. Hemisphere GPS may be unable to successfully address these developments on a timely basis or at all. Failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause the Company to be unable to recover significant research and development expenses and could reduce its revenue.

13. *Future Acquisitions*
The Company may seek to expand its business and capabilities through the acquisition of compatible technology, products or businesses. There can be no assurance that suitable acquisition candidates can be identified and acquired on favourable terms, or that the acquired operations can be profitably operated or integrated into the Company. In addition, any internally generated growth experienced by the Company could place significant demands on Management, thereby restricting or limiting the Company's available time and opportunity to identify and evaluate potential acquisitions. To the extent Management is successful in identifying suitable companies or products for acquisition, the Company may deem it necessary or advisable to finance such acquisitions through the issuance of Common Shares, securities convertible into Common Shares, debt financing, or a combination thereof. In such cases, the issuance of Common Shares, Preferred Shares or convertible securities could result in dilution to the holders of Common Shares at the time of such issuance or conversion. The issuance of debt to finance acquisitions may result in, among other things, the encumbrance of certain assets, impeding the Company's ability to obtain bank financing, decreasing its liquidity, and adversely affecting its ability to declare and pay dividends to its shareholders.

14. *Proprietary Protection*
The Company's success will depend, in part, on its ability to obtain patents, maintain trade secrets and unpatented know-how protection, and to operate without infringing on the proprietary rights of third parties or having third parties circumvent its rights. The Company relies on a combination of contract, copyright, patent, trademark and trade secret laws, confidentiality procedures and other measures to protect its proprietary information. There can be no assurance that the steps taken will prevent misappropriation of its proprietary rights. The Company's competitors also could independently develop technology similar to its technology. Although the Company does not believe that its products or services infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company, or that any such assertions or prosecutions will not materially adversely affect its business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, the Company could incur significant costs and diversion of resources with respect to the defense thereof, which could have a material adverse effect on its business.

15. *Conflicts of Interest*
    Certain directors of the Company are engaged and will continue to be engaged in the design, manufacture and marketing of electronic products, and situations may arise where the directors may be in direct competition with the Company. Conflicts of interest, if any, which arise will be subject to and governed by the procedures prescribed by the Alberta Business Corporations Act ("ABCA") which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Company to disclose his interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

16. *Product Liability*
    The sale and use of the Company's products entail risk of product liability. Although the Company has product liability insurance, there is no assurance that such insurance will be sufficient or will continue to be available on reasonable terms.

17. *New and Emerging Markets*
    Many of the markets for the Company's products are new and emerging. The Company's success will be significantly affected by the outcome of the development of these new markets.

18. *Physical Facilities*
    The Company has facilities in several different locations, as well as component inventory, finished goods and capital assets at third-party manufacturing facilities. Tangible property at each location is subject to risk of fire, earthquake, flood, and other natural acts of God. In the event of such acts, there could be delays in production and shipments of product due to both the loss of inventory and/or capacity to produce.

19. *Legal Risks*
    In common with other companies, the Company is subject to legal risks related to operations, contracts, relationships and otherwise under which it may be served with legal claims. Whether or not the claims are legally valid, such claims may result in legal fees, damages, settlement costs and other costs as well as significant time and distraction of Management and employees – which could negatively impact the Company's ability to execute its business plans.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed with the objective to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's Management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on testing and evaluation as of December 31, 2008, that while a majority of the disclosure controls and procedures are operating as designed, as a result of the weaknesses in internal controls over financial reporting set out in the following section, the Company's disclosure controls and procedures cannot be considered to be effective to provide reasonable assurance that material information related to the Company and its subsidiaries is made known to them on a timely basis.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures have been designed with the objective to provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting would prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

In December 2007, the Company completed the acquisition of Beeline Technologies Pty Ltd. In early January, the Company commenced a formal integration project, including the alignment of Beeline policies, processes, systems and internal controls with those of Hemisphere. The integration process was largely completed by the end of the second quarter.

We have assessed the design and completed testing of the effectiveness of our internal controls over financial reporting. During this process, we identified certain weaknesses in internal controls over financial reporting which are set out below. The weaknesses in the Company's internal controls over financial reporting discussed below result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of material misstatement, as described more fully below, however, there can be no assurance that the risk can be reduced to less than a remote likelihood of a material misstatement.

Limited Number of Staff: Common with many small companies, internal control deficiencies have been identified within the Company's accounting and finance department as a result of a limited number of staff. Two deficiencies were identified:

1. the Company does not have the personnel with all the technical knowledge to identify and address complex and non-routine transactions that may arise; and
2. certain duties were not properly segregated due to the limited number of staff.

Management has implemented processes to mitigate the risks arising from these weaknesses, including the transfer of certain incompatible functions to staff who do not have incompatible functions. However, given limited resources, there are circumstances where it was determined that it is not cost effective to fully eliminate incompatible functions. Instead, the Company relies on mitigating processes and controls. Material, complex and non-routine transactions are overseen by members of the senior management team and third-party expert advisors are consulted as needed in connection with the accounting and other implications. Detailed working papers are prepared and regularly reviewed by accounting management. Management reporting is prepared and reviewed monthly by the senior management team. On a quarterly basis, consolidated financial statements are reviewed by the Chief Executive Officer, Chief Financial Officer and the Audit Committee of the Board of Directors. In addition, the quarterly financial statements are reviewed by the Company's external auditor and annual consolidated financial statements are audited.

International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed a strategic plan to converge Canadian GAAP with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. IFRS is likely to result in a change in certain of the Company's accounting policies and may require restatements for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. In order to mitigate the impact of adoption to IFRS, the AcSB will continue to issue accounting standards that are converged with IFRS.

The Company is in the assessment phase of the conversion. This includes, among other things, identifying the differences between existing Canadian GAAP and IFRS, the project structure and governance, resource requirements, training plans, review of the impact on information management systems and internal controls and the analysis of the potential for exemptions under IFRS 1.

Consolidated Financial Statements of

Hemisphere GPS

Years ended December 31, 2008 and 2007

(expressed in U.S. dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of Hemisphere GPS Inc. is responsible for the preparation and the presentation of the consolidated financial statements and related information published in the annual report. These statements were prepared in accordance with generally accepted accounting principles in Canada.

The preparation of the financial information necessarily requires the use of some estimates and judgements, such as selection and application of accounting principles appropriate to the circumstances and with due consideration to materiality. Where appropriate, management seeks and receives guidance in these matters from external legal, accounting and other advisors.

To ensure the reliability of the financial statements, management relies on the Company's system of internal controls. The accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

Management continuously monitors and adjusts the Company's internal controls and management information systems to accommodate a changing environment while ensuring financial integrity.

The Board of Directors is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee which is comprised entirely of independent directors.

The Audit Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and to review Management's Discussion and Analysis, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

Management also recognizes its responsibility for ensuring that the Company, at all times, conducts its affairs in an ethical manner, conforming to all applicable laws and regulations, and in accordance with the highest standards of personal and corporate conduct.

C Olson

Cameron Olson
Sr. Vice President & Chief Financial Officer
March 13, 2009
Calgary, Canada

Steven Koles
President & Chief Executive Officer
March 13, 2009
Calgary, Canada

KMPG LLP
Chartered Accountants
2700 205 - 5th Avenue SW
Calgary AB T2P 4B9

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Hemisphere GPS Inc. as at December 31, 2008 and 2007, and the consolidated statements of operations and deficit, comprehensive income and accumulated other comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 12, 2009

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007
(expressed in U.S. dollars)

	2008	2007 (note 1(j))
Assets		
Current assets:		
Cash and cash equivalents	$ 16,288,684	$ 13,455,779
Accounts receivable	7,409,108	7,128,751
Inventories	14,016,645	15,325,088
Deferred commissions	215,402	262,945
Prepaid expenses and deposits	679,863	637,009
Current assets of discontinued operations (note 10)	–	398,402
	38,609,702	37,207,974
Deferred commissions	171,852	257,546
Property and equipment (note 3)	6,871,801	8,200,232
Intangible assets (note 4)	7,029,627	10,905,247
Goodwill	34,972,095	43,247,897
	$ 87,655,077	$ 99,818,896
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,634,059	$ 8,437,776
Foreign exchange contract (note 14(d))	3,270,210	–
Deferred revenue	1,484,166	1,607,063
Current portion of capital leases (note 5)	–	102,939
Notes payable (note 2)	–	327,963
Current liabilities of discontinued operations (note 10)	–	58,477
	11,388,435	10,534,218
Deferred revenue	1,035,220	1,716,973
Shareholders' equity:		
Share capital (note 6)	108,162,136	86,592,382
Share capital purchased for cancellation under Normal Course Issuer Bid (note 6(g))	(450,633)	–
Performance Warrants (note 6(e))	–	5,296,681
Contributed surplus (note 7)	3,134,045	2,685,651
Warrants (note 6(f))	–	16,237,045
Deficit	(34,232,193)	(40,469,714)
Accumulated other comprehensive income	(1,381,933)	17,225,660
	75,231,422	87,567,705
Commitments (note 11)		
Contingencies (note 13)		
	$ 87,655,077	$ 99,818,896

See accompanying notes to consolidated financial statements.

Approved by the Board:

Paul Cataford, Director

Paul Camwell, Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31, 2008 and 2007
(expressed in U.S. dollars)

	2008	2007
		(note 1(j))
Sales	$ 72,663,712	$ 53,661,420
Cost of sales	35,860,059	28,384,504
	36,803,653	25,276,916
Expenses:		
Research and development	8,097,446	4,950,008
Sales and marketing	12,009,367	9,241,586
General and administrative	7,189,844	5,592,825
Stock-based compensation	699,875	614,356
Amortization	3,427,272	2,257,742
	31,423,804	22,656,517
Income before undernoted items	5,379,849	2,620,399
Loss on sale of marketable securities	–	35,342
Foreign exchange (gain) loss	(625,840)	639,183
Interest and other income	(668,673)	(390,134)
Restructuring costs	250,742	–
Legal fees on settlement of lawsuit (note 13)	151,700	2,949,995
Income (loss) before income taxes	6,271,920	(613,987)
Income taxes	175,911	–
Income (loss) from continuing operations	6,096,009	(613,987)
Loss from discontinued operations (note 10)	–	(273,934)
Net income (loss)	6,096,009	(887,921)
Deficit, beginning of year	(40,469,714)	(39,581,793)
Adjustment due to adoption of new accounting policy (note 1(d))	150,135	–
Adjustment due to Normal Course Issuer Bid (note 6(g))	(8,623)	–
Deficit, end of year	$(34,232,193)	$(40,469,714)
Net income (loss) per common share from continuing operations:		
Basic and diluted	$ 0.11	$ (0.01)
Net income (loss) per common share:		
Basic and diluted	$ 0.11	$ (0.02)
Weighted average shares outstanding:		
Basic	54,798,890	46,338,771
Diluted	55,132,241	53,740,919

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Years ended December 31, 2008 and 2007
(expressed in U.S. dollars)

	2008	2007
		(note 1(j))
Net earnings (loss)	6,096,009	(887,921)
Other Comprehensive Income (net of tax):		
Translation of assets and liabilities into U.S. dollar reporting currency	(18,607,593)	9,255,405
Comprehensive Income	(12,511,584)	8,367,484
Accumulated Other Comprehensive Income, opening balance	17,225,660	7,970,255
Translation of assets and liabilities into U.S. dollar reporting currency	(18,607,593)	9,255,405
Accumulated Other Comprehensive Income, closing balance	(1,381,933)	17,225,660

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007
(expressed in U.S. dollars)

	2008	2007 (note 1(j))
Cash flows from (used in) operating activities:		
Income (loss) from continuing operations	$ 6,096,009	$ (613,987)
Items not involving cash:		
Amortization	3,427,272	2,257,742
Stock based compensation	699,875	614,356
Unrealized foreign exchange loss	497,182	4,112
Loss on sale of marketable securities	–	35,342
Cash from continuing operations	10,720,338	2,297,565
Change in non-cash operating working capital:		
Accounts receivable	(1,567,739)	(1,723,133)
Inventories	(1,655,176)	(3,441,165)
Prepaid expenses and deposits	(233,241)	(100,725)
Deferred commissions	31,798	(135,676)
Accounts payable and accrued liabilities	(279,785)	1,954,997
Note payable	(322,680)	–
Deferred revenue	(147,935)	730,031
	6,545,580	(418,106)
Cash used in discontinued operations (note 10)	–	(332,887)
	6,545,580	(750,993)
Cash flows from (used in) financing activities:		
Long-term debt	–	(256,501)
Capital leases	(101,003)	(275,545)
Issue of share capital, net of issue costs	1,060,771	418,645
Issue of Warrants	–	16,589,305
Repurchase of shares for cash	(1,675,947)	–
	(716,179)	16,475,904
Cash flows from (used in) investing activities:		
Purchase of property and equipment	(1,575,459)	(979,674)
Proceeds from the sale of marketable securities	–	546,759
Business acquisition (note 2)	(92,654)	(13,343,231)
Cash from discontinued operations (note 10)	–	168,561
	(1,668,113)	(13,607,585)
Increase in cash position	4,161,288	2,117,326
Effect of currency translation on cash balances and cash flows	(1,328,383)	1,761,172
Cash, beginning of year	13,455,779	9,577,281
Cash and cash equivalents, end of year	$ 16,288,684	$ 13,455,779
Cash and cash equivalents consist of:		
Cash	$ 2,288,684	$ 13,455,779
Term deposits	$ 14,000,000	$ –
Supplemental disclosure:		
Interest paid	$ 34,720	$ 53,343
Income taxes paid	$ 231,127	$ –

See accompanying notes to consolidated financial statements.

Hemisphere GPS Inc (the "Company") is incorporated under the laws of the Province of Alberta. The Company is actively involved in the design, manufacture and marketing of precision Global Positioning System ("GPS") products and technologies.

1. **Significant accounting policies:**

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All inter-company transactions have been eliminated upon consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand and term deposits with a Canadian chartered bank with original maturity dates of three months or less.

(c) Revenue recognition:

The Company generates revenue from the sale of equipment, software and from extended service programs.

Revenues from the sale of equipment and software are recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Accruals for warranty costs, sales returns and other allowances at the time of shipment are based upon contract terms and anticipated claims.

Revenues from the sale of extended service programs are recorded as deferred revenue at the time that payment is received and are recognized on a pro-rata basis over the extended service period. Commissions paid on extended service program revenues are recorded as deferred charges at the time they are paid, and are expensed on a pro-rata basis over the extended service period.

(d) Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis and net realizable value is defined as the estimated selling price less estimated costs of completion and sale. The cost of work in process and finished goods include materials, labor and production overheads. Provisions for obsolete inventory are based on Management's best estimates which consider a variety of factors that may affect the carrying values of inventories. These factors include, but are not limited to, market demand, technology changes and design changes.

As of January 1, 2008, the Company has adopted newly issued accounting standards for inventories, relating to the method of accounting for inventory and the related disclosures. The Company had adopted this accounting standard retrospectively, without restatement of prior year results, resulting in a decrease in the opening deficit of $150,135.

During the year ended December 31, 2008, the Company recorded write-downs of slow moving and obsolete inventories in the amount of $1,009,653 (2007 – $478,645). These amounts have been included in cost of goods sold.

1. **Significant accounting policies (continued):**

(e) Property and equipment:

Property and equipment is recorded at cost. Amortization is provided at the following annual rates:

Assets	Method	Rate
Leasehold improvements	straight-line	4 – 20 years
Computer equipment and software	declining balance	30%
Office, production equipment and vehicles	declining balance	20% – 30%
Licenses and other assets	straight-line	2 – 10 years

Amortization is charged from the date of acquisition of an asset.

(f) Research and development costs:

Ongoing research and development costs, net of related government incentives and grants, are charged to earnings in the current period. During 2008, grants relating to research and development activities totaling $200,701 were received.

(g) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the business combination.

Goodwill is not amortized, but is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. As a result of the current year's assessment, no impairment loss has been recognized on goodwill.

1. Significant accounting policies (continued):

(h) Intangible assets:

Intangible assets are carried at cost, with the carrying value of these assets being assessed whenever an event or changes in circumstances indicate that their carrying amount may not be recoverable.

Amortization is provided using the straight line method at the following annual rates:

Assets	Rate
Trademarks and brands	20 years
Customer relationships	5 years
Marketing and distribution assets	5 years
Technology	5 years

(i) Per share amounts:

The calculation of basic earnings (loss) per common share is based on the weighted average number of common shares outstanding. Diluted earnings per share is calculated using the treasury stock method.

(j) Foreign currency translation:

In preparation of unconsolidated financial statements in the Company's measurement currency, foreign currency balances of the Company's foreign subsidiaries, which are considered to be integrated, are translated on the following basis:

- monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates.
- non-monetary assets, liabilities and related depreciation expense are translated at historical rates.
- sales and expenses are translated at the average rate of exchange during the month in which they are recognized.

Any resulting foreign exchange gains and losses are included in earnings.

The Company has historically prepared and reported its financial statements in Canadian dollars. As the Company has grown, its operations have expanded significantly in the United States ("US"). A substantial portion of the Company's revenues and expenses are denominated in US dollars. In addition, most of the Company's competitors and comparable companies report in US dollars. In order to improve the comparability of the Company's publicly reported results with competitor and comparable companies, the Company has elected to adopt the US dollar as its reporting currency effective January 1, 2008. The Company continues to have a Canadian dollar measurement currency for its consolidated operations.

1. **Significant accounting policies (continued):**

In effecting this change, the Company has followed the recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants, set out in EIC-130, *Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency*. Based on the recommendations of EIC-130, the financial statements for all periods presented have been translated into US dollars using the Current Rate method. Under this method, the statements of operations and cash flows for each period have been translated into the reporting currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheet dates. Shareholders' equity has been translated using the rates of exchange in effect as of the dates of the various capital transactions. All exchange differences resulting from the translation are included in the accumulated other comprehensive income in shareholders' equity. All comparative information has been restated to reflect the Company's results as if they had been historically reported in US dollars.

(k) Stock-based compensation plan:

The Company applies the fair value method to all stock-based payments and awards. Under the fair value method, the Company calculates the fair value of stock option grants or direct awards of stock and records that fair value as compensation expense over the vesting period of those grants and awards, and an equal amount is recorded in contributed surplus. Upon exercise of stock options, the amount of compensation expense previously recorded in contributed surplus is moved to share capital.

(l) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences - the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis. Future income tax assets and future income tax liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to settle. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment.

To the extent that future income tax assets are not considered more likely than not to be realized, a valuation allowance is provided.

(m) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. **Significant accounting policies (continued):**

(n) Financial instruments and comprehensive income:

On January 1, 2007, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") regarding the recognition, measurement, disclosure and presentation of financial instruments. Under these standards, financial instruments must be classified into one of five categories: (i) held-for-trading, (ii) held-to-maturity, (iii) loans and receivables, (iv) available-for-sale, and (v) other financial liabilities. The new standards require that all financial instruments within the scope of the standards, including all derivative instruments, be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities – except those in the held-for-trading and available-for-sale categories – must be determined at amortized cost using the effective interest rate method. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Company designated accounts receivable as "loans and receivables", which are measured at amortized cost. Accounts payable and accrued liabilities are classified as "other financial liabilities" which are measured at amortized cost.

As of January 1, 2008, the Company also adopted CICA Handbook Section 1535, "*Capital Disclosures",* Section 3862, "*Financial Instruments – Disclosures",* and Section 3863, "*Financial Instruments – Presentation".* The new standards have been adopted on a prospective basis with no restatement of prior periods. Section 1535 requires additional disclosures regarding the Company's capital management (note 15), while Section 3862 addresses financial instruments and the nature, extent and management of risks arising from financial instruments to which the Company may be exposed (note 14). The adoption of Section 3863 had no effect on the presentation of the Company's financial instruments.

(o) Recent accounting pronouncements:

The CICA issued new accounting standard Section 3064 " Goodwill and Intangible Assets", which are applicable for fiscal years beginning on or after October 1, 2008. The Company does not expect any significant effect on its financial statements due to the application of these standards.

The Canadian Accounting Standard Board's recently announced that as of January 1, 2011 International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for publicly accountable enterprises. The Company has been carefully evaluating its own implementation plan and assessing the impact the changes will have on the organization. As the final implementation date approaches, the Company will continue to monitor developments.

2. **Business acquisitions:**

On December 20, 2007, the Company, through a wholly-owned subsidiary incorporated in Australia, completed the acquisition of the shares and outstanding securities of Beeline Technologies Pty Ltd. ("Beeline"). The acquisition has been accounted for using the purchase method and the allocation of the purchase price based on fair values was as follows:

Current assets	$ 333,298
Property and equipment	187,755
Intangible assets	7,218,500
Goodwill	14,576,266
Current liabilities	(279,630)
Notes payable	(320,568)
	$21,715,621

Consideration consisted of:

Cash	$12,179,432
Common shares issued	8,500,000
Transaction costs	1,036,189
	$21,715,621

3. **Property and equipment:**

December 31, 2008	Cost	Accumulated amortization	Net book value
Leasehold improvements	$ 3,069,250	$ 591,311	$ 2,477,939
Computer equipment and software	5,414,764	3,356,386	2,058,378
Office and production equipment	5,428,063	3,447,608	1,980,455
Licenses and other assets	637,071	282,042	355,029
	$14,549,148	$ 7,677,347	$ 6,871,801

December 31, 2007	Cost	Accumulated amortization	Net book value
Leasehold improvements	$ 3,665,490	$ 502,534	$ 3,162,956
Computer equipment and software	5,755,161	3,424,407	2,330,754
Office and production equipment	6,092,107	3,708,536	2,383,571
Licenses and other assets	636,003	313,052	322,951
	$16,148,761	$ 7,948,529	$ 8,200,232

Included in property and equipment is equipment under capital lease with a cost of nil (2007 - $1,453,890), accumulated amortization of nil (2007 - $1,060,836) and a net book value of nil (2007 - $393,054).

6. **Share capital (continued):**

Changes in the number of options, with their weighted average exercise prices are summarized below:

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Total options outstanding, beginning of year	2,785,468	$ 1.77	3,002,631	$ 2.18
Granted	2,142,500	1.84	275,000	2.37
Exercised	(631,907)	1.56	(248,360)	1.89
Forfeited	(39,714)	1.55	(243,803)	2.65
Stock options outstanding, end of year	4,256,347	$ 1.84	2,785,468	$ 2.19
Exercisable at year end	1,999,790	$ 1.92	2,134,141	$ 2.22

	Options outstanding			Options exercisable	
Range of exercise prices outstanding	Number outstanding at December 31, 2008	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at December 31, 2008	Weighted average exercise price
$1.07 – 2.00	2,342,640	43	$ 1.27	1,074,527	$ 1.41
2.01 – 3.00	1,713,707	38	2.46	725,263	2.37
3.01 – 3.07	200,000	15	3.07	200,000	3.07
$1.07 – 3.07	4,256,347	40	$ 1.84	1,999,790	$ 1.92

(d) The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: zero dividend yield; weighted average volatility of 124.3%; risk-free rate of 1.5% to 3.25%; and expected lives of 3.29 years. The weighted average fair value of options granted during the year was $1.43 (2007 - $1.33) per option. The Company has recorded $699,875 (2007 - $614,356) as compensation expense.

(e) Under Performance Warrants issued to RHS, Inc. in connection with the Company's April 2005 acquisition of the Outback Business, at December 31, 2007, 1,500,028 common shares of the Company were issuable to RHS for no additional consideration based upon cumulative revenue and profitability targets over the 2005, 2006 and 2007 fiscal years. The common shares were issued on April 8, 2008 and were valued at CDN$3.54 per share. This has been accounted for as additional consideration on the acquisition and recorded as goodwill.

6. **Share capital (continued):**

(f) On December 27, 2007 the Company closed the bought-deal private placement of 5,555,600 Special Warrants issued at a price of CDN$3.15 per Special Warrant for total gross proceeds of $17,446,061. On March 26, 2008, the Special Warrants were exercised and 5,555,600 common shares were issued. There are no further Special Warrants outstanding.

(g) Normal Course Issuer Bid:

On September 10, 2008 the Company announced a Normal Course Issuer Bid to purchase for cancellation, from time to time, up to 2,822,204 of its issued and outstanding common shares (being no greater than 5% of the issued and outstanding common shares at September 10, 2008) on the open market through the facilities of the Toronto Stock Exchange. During the year, the Company purchased 945,200 common shares at an average price of CDN$2.07. 718,500 of these shares were cancelled during the year and 226,700 shares were cancelled in 2009. The repurchase resulted in a $1,486,056 reduction in share capital, an $8,623 increase in deficit and a $270,594 increase in contributed surplus.

7. **Contributed surplus:**

Balance, December 31, 2006	2,257,537
Stock-based compensation expense	614,356
Stock options exercised	(186,242)
Balance, December 31, 2007	2,685,651
Stock-based compensation expense	699,875
Stock options exercised	(522,075)
Normal Course Issuer Bid	270,594
Balance, December 31, 2008	$ 3,134,045

8. Income taxes:

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial income tax rate of 29.5% (2008 – 32.12%) to earnings before income tax as follows:

	2008	2007
Expected income tax (recovery)	$ 1,850,216	$ (197,213)
Increase (decrease) resulting from:		
Unrecognized future tax assets	(2,409,204)	(598,994)
Permanent differences	581,870	140,596
Impact of future enacted tax rates and exchange rate	(2,168,392)	2,850,767
Impact of foreign jurisdiction tax rates	1,327,187	595,606
Tax recovery of loss on discontinued operations	–	(91,248)
Impact of review and update of prior years' tax filings	818,323	(2,699,514)
Alternative Minimum Tax Expense	175,911	–
Income tax expense	$ 175,911	$ –

The components of the Company's net future income tax assets, no portion of which has been recorded in these financial statements, are as follows:

	Asset (Liability)			
December 31, 2008	Canada	United States	Australia	Total
Net operating losses	$ 1,730,197	$ 6,362,897	$ 636,828	$ 8,729,922
Research and development tax pools	1,295,960	–	–	1,295,960
Property and equipment	16,000	1,427,992	–	1,443,992
Share issue costs	211,320	–	–	211,320
Goodwill	–	(1,688,915)	–	(1,688,915)
Reserves	100,383	–	–	100,383
Inventory	–	36,000	–	36,000
	$ 3,353,860	$ 6,137,974	$ 636,828	$10,128,662

	Asset (Liability)		
December 31, 2007	Canada	United States	Total
Net operating losses	$ 2,267,212	$11,231,336	$13,498,548
Research and development tax pools	1,359,127	–	1,359,127
Property and equipment	60,015	603,646	663,661
Share issue costs	308,591	–	308,591
Inventory	–	35,705	35,705
Goodwill	–	(1,164,877)	(1,164,877)
Reserves	89,328	–	89,328
	$ 4,084,273	$ 10,705,810	$14,790,083

8. **Income taxes (continued):**

The net operating loss carry-forwards reflected above expire as follows:

	Net operating losses
United States:	
2022	$ 3,555,000
2023	1,842,000
2024 and beyond	10,510,000
	$ 15,907,000
Canada:	
2013	408,000
2014	1,824,000
2015 and beyond	4,689,000
	$ 6,921,000

There is no time limit imposed on Australian income tax loss carryforwards of $2,122,760.

The Company has unrecognized tax credits totaling $2,041,000 in Canada, and $3,593,000 in the United States relating to its research and development activities.

9. **Segmented information:**

The Company has identified three operating segments based upon the structure in which management has organized the operations of the Company for making operating decisions, resource allocation decisions and assessing financial performance. The operating segments have been defined primarily by the products, markets, distribution methods and customer composition associated with each segment.

The Company's chief operating decision maker is the President and Chief Executive Officer. The President and CEO reviews financial information relating to the three operating segments, including revenues and the contribution of the segment to the shared costs of the Company. The operating segments defined by the Company are:

(a) Ground Agriculture – this segment sells products for precision farming and ground-based agricultural applications.

(b) Air - this segment sells precision aerial GPS products for farmers, forestry workers, and firefighters.

(c) Precision Products – this segment sells precision GPS products for non-agricultural markets including marine and geographic information systems applications, among others.

All of the reportable operating segments derive their revenue from the sale of GPS guidance related products. Because of their shared nature, the Company does not allocate goodwill, property and equipment, capital expenditures or related amortization to its operating segments.

9. **Segmented information (continued):**

2008	Ground Ag	Air	Precision	Shared	Total
Sales	$ 55,613,000	$ 6,157,000	$10,894,000	$ –	$ 72,664,000
Contribution (loss)	$ 18,979,000	$ 938,000	$ 3,313,000	$ (17,134,000)	$ 6,096,000

2007	Ground Ag	Air	Precision	Shared	Total
Sales	$41,407,000	$ 4,718,000	$ 7,536,000	$ –	$ 53,661,000
Contribution (loss)	$ 9,370,000	$ 1,030,000	$ 1,032,000	$ (12,046,000)	$ (614,000)

Assets and sales by geographic segment:

	Assets		Sales	
	2008	2007	2008	2007
United States	$ 49,092,000	$ 45,961,000	$ 35,926,000	$ 25,552,000
Canada	21,376,000	31,658,000	15,040,000	13,044,000
Europe	–	–	10,014,000	6,434,000
Australia	17,187,000	22,200,000	3,520,000	2,092,000
Other	–	–	8,164,000	6,539,000
	$ 87,655,000	$ 99,819,000	$ 72,664,000	$ 53,661,000

Sales are attributed to geographic segments based on the location of the customer. The net book value of property and equipment located in Canada is $2,140,278 (2007 - $3,059,156), United States is $4,417,017 (2007 - $4,961,919) and Australia is $314,506 (2007 – $179,157).

10. Discontinued operations:

Prior to 2006, the Company also carried out activities through its Wireless Business Unit, which included two primary product lines: Fixed Wireless Telephones and Telematics products. In 2006, the Company divested the Wireless product lines and as a result, those activities were treated as discontinued operations in the financial statements for 2007. In 2008, the Wireless activities have largely wound down, and it is anticipated that there will be no significant further financial impact from such activities.

The results of discontinued operations for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Sales	$ –	$ –
Expenses:		
General and administrative	–	442,394
Loss before undernoted items	–	442,394
Gain on the sale of patents	–	(168,561)
Impairment of property and equipment	–	108,361
Other income	–	(108,260)
Loss from discontinued operations	$ –	$ (273,934)

Assets and liabilities presented in the consolidated balance sheet are recorded at lower of cost or net realizable value and include the following assets and liabilities of discontinued operations:

	2008	2007
Current assets	$ –	$ 398,402
Current liabilities	–	(58,477)
	$ –	$ 339,925

10. Discontinued operations (continued):

The cash flows from discontinued operations for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Cash flows from (used in) operating activities:		
Net loss from discontinued operations	$ –	$ (273,934)
Items not involving cash:		
Gain on sale of patents	–	(168,561)
Impairment of property and equipment	–	108,361
	–	(334,134)
Change in non-cash operating working capital:		
Accounts receivable	–	934,964
Accounts payable	–	(933,717)
	–	(332,887)
Cash flows from investing activities:		
Proceeds on sale of patents	–	168,561
	$ –	$ 164,326

11. Commitments:

The Company is committed to annual minimum operating lease payments, excluding tenant-operating costs, of:

2009	$ 1,119,183
2010	1,082,257
2011	926,542
2012	586,790
2013	452,250
Thereafter	670,779

Effective July 1, 2006, the Company entered into a five year lease for a building in Hiawatha, Kansas that is being used as the distribution centre for the Company's ground agriculture product line. The building is leased from the City of Hiawatha for annual rent of $120,000. If the Company meets certain headcount growth thresholds over the term of the lease, the lease payments are forgiven. For the period July 1, 2006 to December 31, 2008, the Company has met the growth thresholds, and the lease payments were forgiven.

If the Company has met the growth thresholds at the end of the lease, the Company will have the option to purchase the building for $1.00. If the Company has not met the thresholds, then the Company will have the option to purchase the building for a range of amounts up to the fair market value of the building at that time. It is uncertain as to whether the growth thresholds will be met at this point in time, accordingly, the Company has accounted for this as an operating lease at December 31, 2008.

12. Related party transactions:

In connection with the acquisition of the Outback Business in 2005, the Company has ongoing transactions with the vendor, RHS, which is a company wholly-owned by a director and former member of the Company's senior management team.

(a) Included in sales is $227 (2007 - $119,180) for sales of Outback products to RHS.

(b) On April 8, 2008, 1,500,028 common shares were issued to RHS, Inc. in connection with Performance Warrants issued and related to revenue and profitability targets for the years 2005 to 2007. Greater detail is provided in note 6(e).

All transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. Contingencies:

The Company was involved in the following claims and lawsuits:

(a) During 2006, the Company was served with a statement of claim from a company who was a former customer of the Company's Telematics product line, which is disclosed as discontinued operations in these financial statements. This legal action has been withdrawn following a settlement agreement between the parties in January 2009. All documentation has been filed with the courts and the matter is now closed.

(b) During 2007, following the dismissal of the associated patent infringement claims by the U.S. District Court, the Company settled an outstanding legal action that had been initiated by a third party in 2002. As a result, all outstanding litigation with the third party has been discontinued and the Company does not expect to incur further legal costs associated with this matter.

The Company is subject to claims and contingencies related to lawsuits and other matters arising in the normal course of operations. Management believes the ultimate liability, if any, arising from such claims or contingencies, is not likely to have a material adverse effect on the Company's results of operations or financial condition.

14. Financial instruments and financial risk management:

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments.

The nature of these instruments and the Company's operations expose the Company to the following risks:

(a) Credit risk:

Credit risk reflects the risk that the Company may be unable to collect amounts due to the Company from customers for its products or for other transactions that may be entered by the Company. The extent of the risk depends on the credit quality of the party from which the amount is due.

The Company employs established credit approval and monitoring practices to mitigate this risk, including reviewing the creditworthiness of new customers to establish credit limits, monitoring customer payment performance and, where considered appropriate, reviewing the financial condition of its existing customers and other debtors. The Company has determined that an allowance of $219,000 is required in respect of the gross amount of accounts receivable. The Company establishes an allowance for doubtful accounts based upon individual account assessment along with the credit risk of its customers, historical trends and economic circumstances.

The aging of the accounts receivable as at year end is as follows:

	2008
Current, 1 – 30 days	$ 5,202,000
31 – 60 days	885,000
61 – 90 days	472,000
Greater than 90 days	1,069,000
	7,628,000
Provision	(219,000)
	$ 7,409,000

The movement is the allowance for doubtful accounts as at year end is as follows:

	Provision
Balance, December 31, 2007	$ 113,000
Provision	232,000
Accounts receivable written off	(126,000)
Balance, December 31, 2008	$ 219,000

14. Financial instruments and financial risk management (continued):

(b) Interest rate risk:

The Company is exposed to interest rate risk on cash balances or term deposits earning interest income and to the extent that it may draw on its operating line of credit or carry other forms of debt which calculate interest as a function of variable interest rates. At December 31, 2008, the Company does not carry material liabilities that are exposed to variable interest rates.

(c) Liquidity risk:

The Company may be exposed to liquidity risk if it is unable to collect its trade accounts receivable balances on a timely basis, which in turn could impact the Company's ability to meet commitments to creditors. The Company manages its liquidity risks by carrying a target level of cash on its balance sheet, by maintaining a conservative capital structure, by prudently managing its credit risks and by maintaining sufficient capacity within its credit facilities to meet any near-term liquidity requirements.

(d) Foreign exchange risk:

The Company is exposed to foreign exchange risk primarily in the following ways:

i. Cashflow – A significant portion of the Company's revenues and expenses are denominated in US dollars, however certain of its expenses are denominated in Canadian dollars and Australian dollars.

ii. Working capital – The Company has a Canadian dollar measurement or functional currency. As a result, the Company is exposed to foreign exchange risk for working capital items denominated in US dollars and Australian dollars. At year end, working capital denominated in US dollars was approximately $19.8 million. A 1% change in Canadian to US dollar exchange rate will impact net income by approximately $198,000. At year end, working capital denominated in Australian dollars was not material.

The Company mitigates its exposure to foreign currency risk in the following ways:

i. Cashflow – The Company mitigates its cashflow exposures by incurring costs, where practical, in US dollars to match the currency of the majority of its revenues. The Company has not in the past managed its cashflow foreign currency exposures through the use of financial instruments, however, may enter financial instruments to mitigate this exposure if considered appropriate.

ii. Working capital – The Company enters into financial instruments designed to offset the exposure to US and Australian dollar denominated working capital. The Board of Directors has approved the execution of financial instruments with a maximum notional value of US$40 million which have the objective of offsetting the exposure the Company faces by carrying positive US dollar working capital. When considered appropriate, the Company enters financial instruments which are settled for cash using the Bank of Canada noon day rate as the reference foreign exchange rate.

14. Financial instruments and financial risk management (continued):

These financial instruments are recorded at fair value each reporting period with changes in fair value recorded in net earnings. The Company does not use forward contracts for trading or speculative purposes. As of year end the Company had a $5.5 million foreign exchange contract expiring on January 15, 2009 at a forward rate of $1.0581 and a $18.5 million foreign exchange contract expiring on March 31, 2009 at a forward rate of $1.0573. These contracts are recorded at fair value with changes in fair value recognized through earnings and are included in "Foreign exchange loss (gain)" in the Consolidated Statement of Operations and Deficit. There were no foreign exchange contracts outstanding at December 31, 2007.

15. Capital management:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue to seek to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal structure to reduce the cost of capital and to facilitate the growth strategy of the Company.

The Company monitors its capital management through analysis of near-term and mid-term cashflow expectations to ensure an adequate amount of liquidity and through the monthly review of financial results and business expectations. The Company considers the shareholders' equity to be the capital of the Company.

Based upon the dynamic nature of the technology markets that the Company engages in, and the low level of tangible assets required, the capital strategy is to carry a very low level of debt (including capital leases and notes payable). Although a formal debt to equity ratio has not been established by the Company, the ratio of debt to equity has not exceeded 5% at year end in each of the last four years.

Where considered appropriate by Management and/or the Board of Directors, the Company may incur and carry long-term debt from time to time as a result of expansion activities, including acquisitions. In December 2007, the Company incurred a bridge financing loan of $8 million in order to facilitate the acquisition of Beeline. In keeping with the Company's capital strategy to maintain a low debt to equity ratio, the bank loan was repaid before the end of December 2007 with proceeds from a Special Warrants financing.

16. Seasonality of operations:

A large portion of the Company's revenues are derived from agricultural markets in the Northern Hemisphere. As a result, the Company's revenues are subject to seasonality associated with the heaviest buying season of such markets which takes place in the first half of the calendar year.

Directors

Independent
Michael Lang (1)
Chairman
StoneBridge Merchant Capital Corp.

Barry Batcheller (3)
President & CEO
Appareo Systems

Paul Camwell (2)(4)
Chief Technology Officer
Extreme Engineering Limited

Paul Cataford (2)
Corporate Director

John Tye III (2)(4)
Chairman
Bigham Brothers Inc.

Howard Yenke (3)
Retired Executive

(1) Board Chairman
(2) Audit Committee
(3) Compensation Committee
(4) Corporate Governance Committee

Non-Independent
Steven Koles
President & Chief Executive Officer
Hemisphere GPS Inc.

Richard Heiniger
Vice Chairman
Hemisphere GPS Inc.

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Stock Listing

Toronto Stock Exchange
Ticker Symbol: HEM

Senior Officers

Steven Koles
President & Chief Executive Officer

Cameron Olson
Sr. Vice President & Chief Financial Officer

Mohamed Abousalem
Vice President, Marketing and Business Development

William Burdick
Vice President Sales, Ground Ag

Jim Chinnick
Vice President, Engineering

Phil Gabriel
General Manager, Precision Products

Chad Lind
General Manager, Air

Michael Pratt
Vice President, Finance & Admin

Dean Ryerson
Sr. Vice President & Chief of Agriculture

Lisa Smith
Vice President, Operations

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Calgary, Alberta

Bankers

Alberta Treasury Branch, Main Branch
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

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Hemisphere GPS

www.hemispheregps.com

HEMISPHERE GPS INC.

ANNUAL INFORMATION FORM

For the fiscal year ended
December 31, 2008

March 27, 2009

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this annual information form ("Annual Information Form"), and in certain documents incorporated by reference into this Annual Information Form, constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form or as of the date specified in the documents incorporated by reference into this Annual Information Form, as the case may be.

In particular, this Annual Information Form, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:

- financial results;
- new and emerging markets;
- customer adoption of technology and products;
- technological developments;
- expectations regarding the ability to raise capital; and
- research and capital expenditures programs.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- competition;
- departure of key personnel or consultants;
- inability to introduce new technology and new products in a timely manner;
- changes in the GPS network and other systems outside of our control;
- misappropriation of proprietary information;
- legal claims for the infringement of intellectual property and other claims;
- incorrect assessments of the value of acquisitions;
- fluctuation in foreign exchange or interest rates;
- negative conditions in general economic and financial markets;
- reliance on key suppliers;
- availability of key supplies and components;
- dependence on major customers;
- losses from credit exposures;
- product liability;
- damage or loss of use of physical facilities;
- stock market volatility and market valuations;
- conflicts of interest;
- changes in income tax laws and other government regulations; and
- the other factors discussed under "Risk Factors".

With respect to forward-looking statements contained or incorporated be reference in this document, we have made assumptions regarding, among other things: future technological developments; availability of key supplies, components, services, networks and developments; future exchange rates; the cost of expanding Hemisphere's product lines; the impact of increasing competition; the nature and outcome of legal proceedings; the continuity of existing business relationships; conditions in general economic and financial markets; and our ability to obtain financing on acceptable terms.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this Annual Information Form in order to provide shareholders with a more complete perspective on Hemisphere GPS' current and future operations and such information may not be appropriate for other purposes. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this Annual Information Form and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements and readers should also carefully consider the matters discussed under the heading "Risk Factors" in this Annual Information Form.

General Matters

This Annual Information Form contains company names, product names, trade names, trademarks and service marks of Hemisphere GPS and other organizations, all of which are the property of their respective owners.

CORPORATE STRUCTURE

Hemisphere GPS Inc. (the "Corporation", "HEM", "Hemisphere GPS", "us", "we", or "our", where the context requires, also includes our predecessors and our subsidiaries) was incorporated as Canadian Systems International Inc. pursuant to the *Business Corporations Act* (Alberta) ("ABCA") on July 31, 1990. On October 26, 1992 the Corporation changed its name to Communication Systems International Inc. On June 21, 2000, by articles of amendment, the Corporation changed its name to CSI Wireless Inc. On May 9, 2007, the Corporation changed its name to Hemisphere GPS Inc.

Effective April 30, 1996, the Corporation amended its articles to effect, among other things, a re-designation of the Corporation's Class A common shares to common shares of the Corporation ("Common Shares"), a stock split of the Common Shares on a 12,500 to 1 basis and to delete the "private company" share transfer restrictions. Hemisphere GPS designs and manufactures innovative, cost-effective, global positioning system ("GPS") products for applications in ground agriculture, air agriculture, marine and other markets.

Our registered and head office is located at 4110 – 9th Street S.E., Calgary, Alberta, T2G 3C4.

Inter-Corporate Relationships

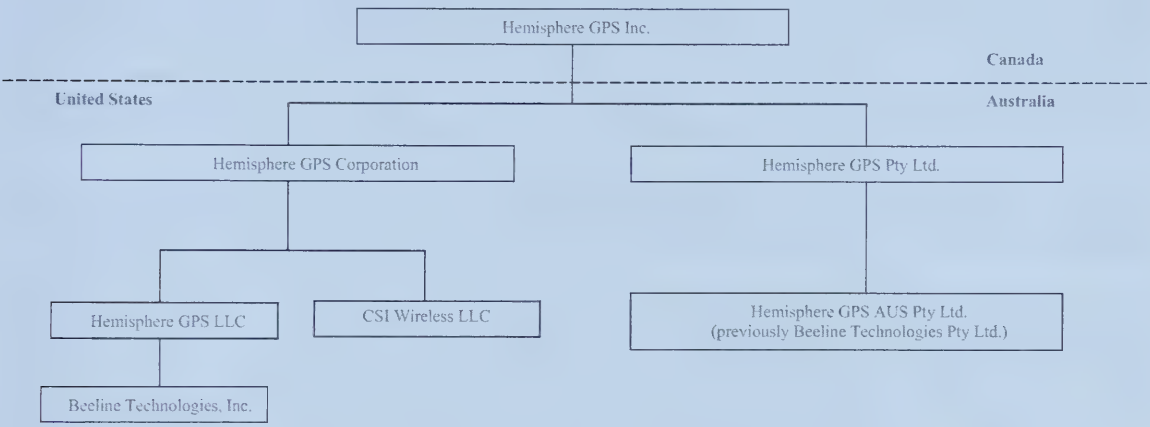
Hemisphere GPS Inc. has four subsidiaries incorporated under the laws of the state of Delaware: Hemisphere GPS Corporation, Hemisphere GPS LLC, CSI Wireless LLC and BEELINE Technologies, Inc. Hemisphere GPS Corporation was previously named CSI Wireless Corporation, before a name change in April 2008. Hemisphere GPS LLC was previously named Satloc LLC, before a name change in November, 2005. Hemisphere GPS Corporation is a wholly owned subsidiary of the Corporation and Hemisphere GPS Corporation holds 100% of the shares of CSI Wireless LLC and Hemisphere GPS LLC. BEELINE Technologies, Inc. is a wholly owned subsidiary of Hemisphere GPS LLC.

Hemisphere GPS Inc. has two subsidiaries incorporated in Australia. Hemisphere GPS Pty Ltd. is incorporated under the laws of the Australian State of Victoria. Its wholly-owned subsidiary, Hemisphere GPS AUS Pty Ltd. is incorporated under the laws of the Australian State of Queensland. Hemisphere

GPS AUS Pty Ltd. was previously named BEELINE Technologies Pty Ltd., before a name change in February 2008. Hemisphere GPS AUS Pty Ltd. previously held 100% of the shares of a subsidiary named Spatial Networks Pty Ltd that was incorporated under the laws of Queensland. This subsidiary was dissolved in 2008.

The following chart reflects our corporate structure as at the date hereof:

Corporate structure



GENERAL DEVELOPMENT OF THE BUSINESS

This section discusses the major events or conditions that have influenced the general development of the Corporation over the last three completed financial years, as applicable, including significant acquisitions and dispositions that have occurred. All financial information referenced in this Annual Information Form is denominated in US dollars, unless otherwise indicated.

Three Year History

2006

On January 3, 2006, we announced that we had signed an agreement to acquire the business assets of Del Norte Technology, Inc. ("Del Norte") located in Dallas, Texas for 940,000. On January 19, 2006, we announced that we had completed the acquisition, and combined Del Norte with our own Hemisphere GPS aerial guidance division to create a new division called Hemisphere Air.

On January 27, 2006, we announced the receipt of more than CDN$5 million of new purchase orders for our fixed wireless phones.

On February 2, 2006 we announced the introduction of two new fixed wireless telephones featuring GSM technology.

On February 9, 2006, we announced that we had reduced staff and expenses in the telematics product line and had commenced the search for a buyer for the telematics business assets.

On February 14, 2006, we announced we that have secured experienced international distributors for our recently announced fixed wireless phones featuring GSM cellular technology.

On February 27, 2006, we announced that Mr. Michael Brower had resigned from our Board of Directors.

On March 7, 2006 we announced the receipt of more than CDN$7.5 million in purchase orders for our GSM-based fixed wireless telephones.

On March 7, 2006, we released our fourth quarter and fiscal 2005 financial results. As part of that announcement, the Corporation announced that based upon a strategic determination to focus on business lines with the greatest opportunity, we had made the decision to sell the telematics product line and had commenced the search for a buyer.

On April 3, 2006, we announced the introduction of the Outback BaseLine product, a high-definition product for agricultural applications that is much more accurate than standard GPS at a very competitive cost.

On April 4, 2006, we announced that we would be demonstrating our recently announced GSM fixed wireless telephones at the CTIA Wireless Conference in Las Vegas.

On April 5, 2006, we announced that we had signed an OEM agreement with ComNav Marine Ltd. of Vancouver, Canada to provide our Vector GPS compass heading sensor under a private branding arrangement.

On April 24, 2006, we announced that we had signed a definitive agreement to sell our fixed wireless telephone product line to Telular Corporation of Vernon Hills, Illinois. The transaction was completed on May 8, 2006. Net proceeds on the sale at the time of closing were as follows:

Cash	CDN$ 3,179,005
Accounts receivable	577,102
1,931,745 common shares of Telular Corporation	6,159,692
Less: disposition costs	(431,630)
Net Proceeds	CDN$ 9,484,169

In addition, we received a cash payment of CDN$178,000 for working capital items acquired by Telular Corporation.

The agreement for the sale of the Fixed Wireless product line included the provision that we may earn additional common shares of Telular Corporation based on the revenues earned by Telular Corporation on GSM and TDMA cellular technology fixed wireless telephone sales in specific markets during defined periods ending prior to or on June 30, 2007. The TDMA earnout provision was based on certain TDMA fixed wireless telephone sales during the period April 1 to December 31, 2006. Under this provision, we earned 150,990 additional common shares of Telular Corporation, of a total available of 515,132. The GSM earnout provision is based on certain GSM fixed wireless telephone sales during the period July 1, 2006 to June 30, 2007 and provided us the opportunity to earn up to 643,915 additional common shares, of which no additional common shares were earned.

On April 26, 2006, we announced the introduction of the Crescent A100 smart antenna, combining a GPS antenna with a GPS receiver in a durable, compact enclosure.

On May 15, 2006, we released our first quarter 2006 financial results. As part of that press release, the Corporation announced certain senior management changes. Stephen Verhoeff resigned from the position of President, Chief Executive Officer ("CEO") and Director. The Chairman of our Board of

Directors, Michael Lang, assumed the position of Interim-CEO during the recruitment period for a replacement. Our Chief Financial Officer, Cameron Olson, assumed the role of Interim President, in addition to his responsibilities as Chief Financial Officer. Rick Heiniger, President of Hemisphere GPS, moved from that role to Vice-Chairman of the Board of Directors, focusing on special assignments such as strategic planning and direction for our GPS business.

On May 30, 2006, we announced the appointment of two new members of our Board of Directors; John M. Tye III and Barry Batcheller.

On July 28, 2006, we announced that we had signed an agreement to sell the assets associated with our Location Tag Telematics product line to Trace Technologies LLC ("Trace"), a wholly owned subsidiary of Gabriel Technologies Corporation (OTC Bulletin Board: GWLK) of Omaha, Nebraska for total consideration of $1 million. As a result of circumstances at Trace the transaction did not close, and during the third quarter of 2007, we entered an agreement to terminate the asset purchase agreement and releasing a deposit of CDN$125 thousand that had been paid by Trace and was being held in escrow. This deposit was received by the Company during the third quarter.

On September 8, 2006, we announced the appointment of Steven L. Koles as our President and Chief Executive Officer. As a result of the appointment of Mr. Koles, Michael Lang relinquished the position of Interim Chief Executive Officer, and Cameron Olson relinquished the position of Interim President, but remained in the position of Chief Financial Officer.

On October 21, 2006, we announced that we had been served with a statement of claim filed in the Court of Queen's Bench of Alberta by Longview Advantage, Inc., a private company located in Calgary, Alberta ("Longview"). The statement of claim related to our discontinued telematics activities and claimed damages of CDN$35 million. In March 2007, we filed a statement of defence and a counterclaim against Longview. In January 2009, we entered into an agreement with Longview to settle this lawsuit and all related claims were dropped.

On November 14, 2006, we announced the introduction of the Crescent R100 Series DGPS Receiver, incorporating our Crescent technology.

On November 28, 2006, we announced the introduction of our new SBX-4 DGPS beacon module for OEM customers who need to integrate a versatile precision beacon receiver module into their products.

On December 20, 2006, we announced that we had sold 1,931,745 common shares of Telular Corporation, for proceeds of approximately CDN$7.3 million.

On December 20, 2006, we announced that we had completed the sale of the assets of our Asset-Link telematics product line to CHI-Agra Products Inc. of Vancouver, Canada. Proceeds at closing were $10 thousand in cash, and a promissory note for $90 thousand. In addition, we had the potential to earn up to $250 thousand based on the volume of Asset-Link products sold by CHI-Agra. No such amounts were earned.

2007

On May 9, 2007, we introduced the LX-1, an L-Band (OmniSTAR compatible) differential GPS ("DGPS") receiver board, which improved position accuracy of Hemisphere's Crescent® Receiver Technology to submeter measurement.

On June 5, 2007, we announced updates for our Outback S2 and Outback eDrive products.

On June 19, 2007, we introduced the Crescent VS100 and VS110 heading and positioning systems incorporating our Crescent Technology.

On July 17, 2007, we announced that our Crescent R100 Series DGPS receivers would support real-time kinematic ("RTK") and were available as an upgrade to all customers.

On August 16, 2007, we reported that we had won a patent infringement lawsuit brought against us by Trimble Navigation Ltd. ("Trimble"). The United States District Court of Northern District of California granted our motion for summary judgment as to non-infringement of Trimble's patent, effectively negating the lawsuit against us. On September 28, 2007 we further reported that we had reached a confidential settlement with Trimble, relating to the outstanding patent infringement lawsuits in the Northern District of California and in the District of Kansas. In accordance with the terms of the settlement, the actions were discontinued.

On August 28, 2007, we announced the release of the Outback AutoMate, the Outback S-Lite, and the Outback Finance program.

On September 26, 2007, we announced the introduction of our Eclipse dual-frequency GPS receiver technology, which is based on our Crescent L1 GPS technology and which incorporates exclusive techniques for reducing code measurement noise and mitigating multipath signals.

On November 19, 2007, we announced that the Crescent GPS technology was available for hand-held mapping.

On November 26, 2007, we announced that we were awarded two new patents for innovative technology. *The Method and System for Synchronizing Multiple Tracking Devices for a Geo-Location System* patent (U.S. Patent No. 7,292,186) enables more robust and cost effective heading by using a single processor to compute heading from multiple GPS receivers. Our *Attitude Determination Exploiting Geometry Constraints* patent (U.S. Patent No. 7,292,185) increases the speed and reliability of RTK solutions for multiple antennas at known distances from each other.

On December 10, 2007 we announced that we had entered into a definitive agreement with BEELINE Technologies Pty Ltd. ("BEELINE") under which we agreed to acquire all of the outstanding shares and ongoing operations of BEELINE. On December 24, 2007 we announced that we had completed the acquisition of the outstanding shares and ongoing operations of BEELINE for consideration of 2,445,365 Common Shares of Hemisphere and cash consideration of $12.2 million. A business acquisition report for the acquisition of BEELINE was filed on March 4, 2008. See "Significant Acquisitions".

On December 12, 2007 we announced that we had entered into an agreement with a syndicate of underwriters led by Canaccord Capital Corporation for a "bought-deal", underwritten private placement financing of special warrants ("Special Warrants"). On December 27, 2007 we announced that we had closed the bought-deal private placement of 5,555,600 Special Warrants issued at a price of CDN$3.15 per Special Warrant for total gross proceeds of $17,5 million. On March 25, 2008, we filed a final short form prospectus qualifying the issuance of the 5,555,600 Common Shares to be issued on exercise of the Special Warrants. The Special Warrants were deemed to be exercised on March 26, 2008 and on March 26, 2008, 5,555,600 Common Shares were issued and the Special Warrants were cancelled.

2008

On January 14, 2008, we announced that we had appointed Jim Chinnick as our Vice President of Engineering.

On February 13, 2008, we introduced our next generation agricultural guidance product, the Outback S3, at the National Farm Machinery Show in Louisville, KY. The Outback S3 includes a large color touch screen, constant situational awareness, job management capabilities and other new features.

On April 8, 2008, we issued 1,500,028 Common Shares related to performance warrants (the "Performance Warrants") granted in connection with the 2005 acquisition of the Outback sales and

distribution business assets. There are no further Performance Warrants outstanding. The Common Shares issued were valued at CDN$3.54 per Common Share and have been accounted for as additional consideration on the acquisition and were recorded in our consolidated financial statements as goodwill.

On April 10, 2008, we announced the release of an original equipment manufacture ("OEM") development kit for our Eclipse dual-frequency GPS receiver technology.

On June 30, 2008, we announced that we had implemented a plan to assist employees in purchasing our Common Shares through an Employee Share Purchase Plan ("ESPP").

On June 30, 2008, we announced that Richard Heiniger, the Vice Chairman of our board of directors, had entered into an agreement with a third-party brokerage firm with respect to an automatic securities disposition plan ("ASDP") adopted in accordance with guidelines under applicable Canadian securities laws and regulations. The ASDP provides for the disposition of up to 390,000 of our Common Shares held by Mr. Heiniger in a systematic manner based upon predetermined criteria set out in the ASDP. Under the ASDP, Mr. Heiniger is not permitted to exercise any further discretion or influence over how, when or whether the sales of the Common Shares under the ASDP will occur. The ASDP had a term that ended on December 31, 2008.

On July 14, 2008, we announced that we had been awarded four new patents:

- The *Satellite Position and Heading Sensor for Vehicle Steering Control* patent (U.S. Patent No. 7,400,956)
- The *Portable Reference Station for Local Differential GPS Corrections* patent (U.S. Patent No. 7,400,294)
- The *Articulated Equipment Position Control System and Method* patent (U.S. Patent No. 7,373,231)
- The *Carrier Track Loop for GNSS Derived Attitude* patent (U.S. Patent No. 7,388,539)

On July 21, 2008, we announced the release of a new aerial application product, the Air IntelliFlow Dual Rate system, intended to improve the efficiency of applications and the productivity of pilots in agricultural and other markets.

On August 11, 2008, we announced that we had entered into an agreement under which we will supply CPAC Systems AB with custom-built LV100 GPS compasses. The LV100 is a complete GPS compass and positioning assembly utilizing a unique patent-pending design which features a single carrier board with integrated GPS antennas. CPAC Systems AB is a world-class integrator of embedded control systems for marine vessels, and a wholly-owned subsidiary of AB Volvo.

On September 8, 2008, we introduced our enhanced Eclipse dual-frequency GPS receiver. The Eclipse receiver supports USB communication and enables data logging to standard external USB flash drives. It also utilizes an expanded number of standard RTK (Real-Time Kinematic) message formats, such as RTCM v3, CMR, and CMR+, making the Eclipse receiver compatible with CORS (Continuously Operating Reference Stations) and other RTK base station networks. The Eclipse receiver also includes the updated library from OmniSTAR®, delivering improved acquisition time and performance.

On September 10, 2008, we announced a Normal Course Issuer Bid to purchase shares for cancellation on the open market. During 2008, 945,200 Common Shares were purchased at an average price of CDN$2.07. Of these 945,200 Common Shares, 718,500 Common Shares were cancelled during 2008 and the remaining 226,700 Common Shares were cancelled in early 2009.

On September 16, 2008, we introduced the R220 GPS Receiver. It is the first finished product to be powered by Eclipse™, our patented dual frequency GPS technology.

On September 22, 2008, we announced that our Common Shares had been added to the Standard & Poor's Canadian SmallCap Index.

On September 25, 2008, we announced that we had been awarded with the Deloitte Technology Green 15 Award, which recognizes companies creating innovative, important and economically viable intellectual property in the field of green technology.

On September 30, 2008, we announced that we were awarded with a patent for the *Broadband Aperture Coupled GNSS Microstrip Patch Antenna* (U.S. Patent 7,429,952).

On October 27, 2008, we announced that we had been awarded the ASTech Award for outstanding commercial achievement in science and technology by the Alberta Science and Technology Leadership Foundation.

RECENT DEVELOPMENTS

On January 19, 2009, we announced that we had reached a settlement agreement in regard to litigation with Longview Advantage Inc. ("Longview") that had begun in 2006 and related to its discontinued telematics business. In accordance with the terms of the settlement, the action was discontinued.

On January 19, 2009, we announced the certification of our quality management system to ISO 9001:2008. Globally recognized ISO 9001:2008 standards are set by the International Organization for Standardization, a Geneva-based worldwide federation of national standard bodies.

On January 26, 2009, we announced that we had been awarded with two new patents:

- The *Satellite Based Vehicle Guidance Control in Straight and Contour Modes* patent (U.S. Patent No. 7,437,230)
- The *Soil Cultivation Implement Control Apparatus and Method* patent (U.S. Patent No. 7,460,942)

On February 10, 2009, we introduced the new Outback Sts (S touch screen) which is the latest addition to our line of situational awareness and data management tools. Combining the most popular features of the Outback S2 with the touch screen interface of Outback S3, Outback Sts offers solid performance and simple operation.

SIGNIFICANT ACQUISITIONS

We did not complete any significant acquisitions during the year ended December 31, 2008 for which disclosure is required under part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations*.

DESCRIPTION OF OUR BUSINESS

General

We design, manufacture and market Global Positioning System ("GPS") products and applications that provide intelligent automation and navigation solutions through the sophisticated integration of GPS positioning, and other technologies for precision machine guidance, steering and flow control. Our products provide for machine control accuracy at market leading costs in robust outdoor environments and have a specific focus on the following markets: ground agriculture, aerial agriculture and other precision markets including marine, geographic information systems ("GIS"), mapping and surveying. Specifically, our product lines range from high-accuracy Real Time Kinematic ("RTK"), Differential GPS ("DGPS") and autonomous GPS receivers, OEM engines (PCB-based GPS and DGPS sensors) to ground and aerial guidance solutions and machine control and auto-steering systems for agriculture.

Industry Background

The Global Positioning System

The United States' Department of Defence ("DoD") operates a reliable, 24-hour-per-day, all-weather GPS. This system consists of ground control facilities and a constellation of 24 satellites (plus active spares) orbiting the Earth at an altitude of approximately 22,000 km.

How GPS Works. GPS satellites transmit coded information to users at two frequency bands (1.575 GHz and 1.2276 GHz) that enable user equipment to calculate a range to each satellite. GPS is a *timing system*; that is, ranges are calculated by timing how long it takes for the GPS signal to reach the user's GPS antenna. The GPS receiver calculates the range by multiplying the time of transit of the signal by the speed of light.

To calculate a geographic position, the GPS receiver uses a complex algorithm incorporating satellite coordinates and ranges to each satellite. Reception of any four or more of these signals enables a GPS receiver to compute three-dimensional coordinates. Tracking of only three satellites reduces the position fix to two-dimensional coordinates (horizontal with fixed vertical). The GPS receiver calculates its position with respect to the phase centre of the GPS antenna.

GPS Services

The positioning accuracy offered by GPS varies depending upon the type of service and equipment available. For security reasons, two GPS services exist: the Standard Positioning Service ("SPS") and the Precise Positioning Service ("PPS"). The US DoD reserves the PPS for use by its personnel and authorized partners. The SPS, though less accurate than the PPS, is available to all users.

In order to maintain a strategic advantage, the US DoD used to artificially degrade the performance of the SPS so the positioning accuracy was limited to 100 metres, with 95% confidence. This intentional degradation was called Selective Availability. On May 1, 2000, Selective Availability was reduced to zero, effectively turning off the degradation. The intent, which has proven to be quite successful, was to stimulate the development of applications that utilize GPS technology, together with the related social and economic benefits.

With Selective Availability no longer in place, autonomous GPS is able to achieve a horizontal accuracy of better than 10 meters, with 95% confidence.

Differential GPS

The purpose of Differential GPS ("DGPS") systems is to remove the effects of errors with the goal of enhancing GPS system integrity and positional accuracy. Errors that impact accuracy include ionospheric errors, timing errors, multipath interference and satellite orbit errors. Prior to May 1, 2000, DGPS also helped to reduce the impact of Selective Availability.

How it Works. DGPS involves setting up a reference GPS receiver system at a point of known coordinates. This receiver makes distance measurements, in real-time, to each of the GPS satellites, which includes any errors present in the system. The reference receiver calculates what the true range should be without errors, knowing its own coordinates and those of each satellite. The difference between the known and measured range to each satellite is the range error. This error is the amount that must be removed from each satellite distance measurement to correct for errors present in the system.

Real-Time DGPS. To correct for system errors in real-time, the GPS reference receiver transmits the range error corrections to remote receivers using various forms of wireless communications. The remote receiver uses these differential corrections to correct its satellite range measurements, providing a more accurate position. This approach is the predominant DGPS strategy used for real-time applications.

Wide-Area DGPS ("WADGPS"). A version of differential GPS that provides error corrections over a large geographic area and employs multiple, widely distributed reference receivers. The data from the reference receivers is typically processed at a centrally located facility before being distributed to the end-user.

Differential GPS Techniques and Services

We offer Crescent® and Eclipse™ receiver equipment that is compatible with the four main sources of differential corrections: Beacon DGPS, L-Band Satellite WADGPS, Space Based Augmentation Systems ("SBAS WADGPS") our proprietary Carrier phase-based Local DGPS known as L-Dif™ and Real Time Kinematic.

Beacon DGPS. Many marine authorities around the world have installed networks of medium-frequency (283.5 to 325 kHz) beacons that broadcast free GPS correction information to users. When in range of a beacon, these signals may be used to differentially correct a GPS position. The achievable accuracy depends on the sophistication of the GPS receiver used and ranges from one to five metres, with 95% confidence.

An advantage of the free beacon service over satellite-based services is that beacon signals are able to provide excellent coverage around obstacles, similar to how AM radio signals are able to penetrate tree canopies or diffract around obstacles such as buildings and other structures. The disadvantages include Beacon DGPS' susceptibility to noise interference by man-made equipment and the decreasing applicability of correction information as users move away from the base station.

L-Band WADGPS. Currently, a number of private organizations provide, for a subscription fee, differential corrections to the positioning industry by transmitting correction data via an L-band communication satellite. They include the OmniSTAR®, Navcom and Veripos systems and provide almost worldwide signal coverage.

Because L-Band WADGPS features networks of reference stations to provide correction information throughout the coverage regions, the correction data is optimized so it does not degrade as readily as single reference station services, such as beacon DGPS. This feature results in improved consistency of performance when compared to conventional services, which improves the confidence of system users. Although the performance of L-Band systems is more consistent than single base station systems, the overall accuracy provided is similar with a horizontal accuracy of 1 meter or better, with 95% confidence. Newer L-Band systems, such as Omnistar HP, can provide accuracies at the decimetre level when used with dual-frequency GPS receivers.

Because these services broadcast in the L-Band, similar to GPS, they are line-of-sight signals. The satellite must be in view of the antenna at all times or the signal may be lost.

SBAS WADGPS. The most notable SBAS system is the US Federal Aviation Administration's Wide Area Augmentation System ("WAAS"). Others include the European Geostationary Overlay System ("EGNOS") and Japan's MTSAT Satellite-Based Augmentation System ("MSAS"). They are similar to L-Band DGPS in that they use satellite transponders to relay correction information back to earth, however, they are free-of-charge systems that have been developed primarily for aviation navigation. Other countries, including China and India are developing SBAS systems.

SBAS WADGPS determine the individual constituents of the satellite ranging errors, rather than generating one lumped error correction as is done by Beacon DGPS and some commercial L-Band WADGPS systems. These constituents include satellite orbit, clock, and ionospheric errors. A more consistent level of accuracy can be achieved in comparison to the lumped error correction method. SBAS systems provide a similar level of overall accuracy to commercial L-Band services at about 1 metre, with 95% confidence.

Another benefit of SBAS WADGPS is that their signals are broadcast at the same frequency as GPS, enabling suitably designed GPS receiver systems to track both the GPS and SBAS signals. This reduces overall system costs, compared to requiring a separate differential receiver for Beacon DGPS or for L-Band WADGPS. However, a drawback of transmitting data at the GPS frequency is that the signal is line-of-sight – increasing the potential for signal loss.

WAAS provides excellent coverage of most of the US, southern Canada and Mexico. WAAS is also being upgraded (additional reference stations, satellites, etc.) during the next few years to expand coverage and improve accuracy. SBAS coverage over other regions of the world is the responsibility of respective regional aviation navigation authorities. The overall goal of SBAS systems is to develop an interoperable GPS augmentation system covering the majority of air traffic routes. It is expected that this will ultimately provide coverage to the majority of the world.

Local DGPS (L-Dif™). These systems utilize portable base station receiver units that calculate and broadcast localized code and carrier phase corrections to mobile GPS receivers ("rovers"). The corrections are processed in the rover GPS receiver to achieve accuracy and repeatability that is not possible with code-only DGPS methods such as Beacon DGPS or SBAS WADGPS. Multiple rover receivers can operate from a single local base station.

Real Time Kinematic. We have developed the dual-frequency Eclipse™ receiver technology capable of RTK positioning delivering centimetre level accuracy. RTK is a technique used predominantly in land survey and other high precision applications where the carrier phase measurements of the GPS are processed for higher real-time positioning accuracy. Similar to Local DGPS, RTK systems use a base station receiver in conjunction with the mobile unit for the mobile unit to calculate its relative position.

The Hemisphere GPS Solution

Hemisphere GPS has been a leader in the design and manufacture of competitive, high-accuracy, cost-effective GPS positioning devices and applications since 1990. The following characteristics describe the competitive advantages associated with our products.

Technology and Applications. Originally, the focus of our technology and products was on DGPS receivers. However, our technology portfolio has been expanded beyond DGPS technology through research and development, and through strategic acquisitions. Today, our technology portfolio continues to grow to include strong proprietary technology in GPS and DGPS, as well as advanced applications for guidance, machine control, steering and flow control. Our GPS engineering team has become known in the industry for innovation and creativity as a result of achievements such as:

- developing the Crescent® GPS technology – our own application-specific integrated circuit ("ASIC") providing our GPS receivers with greater accuracy and performance than previously available for lower cost. Our GPS technology leadership is further demonstrated in our eDif® and COAST® software that provides enhanced GPS coverage where no DGPS exists or in difficult conditions.
- developing a L-Dif™ with centimetre-level accuracy for advanced applications by incorporating RTK technology with our single-frequency Crescent GPS technology platform. This enables higher accuracy at lower cost compared to competing systems.
- achieving continual cost reductions through initiatives such as integrating GPS and differential receivers in a single module to share common resources.
- developing a GPS-based heading sensor system that replaces expensive competing systems by combining two GPS receivers and two antennas into a single enclosure to provide heading information to within half-degree accuracy.
- developing a high-quality Beacon DGPS receiver design that provides superior immunity to man-made noise, resulting in high performance under noisy conditions.

- developing the Eclipse™ dual-frequency GPS receiver technology to obtain centimetre accuracy levels when using RTK measurement techniques. This technology offers affordable and versatile precise GPS positioning platform to system integrators and OEM partners.

Range of Options. Our products offer a range of options to customers. For example, our Outback Guidance® family of products starts with basic guidance for agricultural applications. Beyond this entry point, customers can expand their guidance capability with auto-steering, situational awareness and high performance products as their comfort with the technology grows. Our DGPS products are compatible with all primary sources of differential corrections currently available: Beacon DGPS, L-Band WADGPS, SBAS WADGPS and our L-Dif. This provides customers with the option of selecting the technology that is most compatible with their application while considering several factors including the required precision and cost.

Price. Hemisphere GPS has distinguished itself as a provider of high performance GPS guidance and positioning devices at market-leading prices. We continue to pursue means of reducing the cost of our products to maintain our competitive advantage for the customer segments that we target. For example, in 2007, we introduced Eclipse dual-frequency receiver technology, which provides very high performance and functional versatility for lower cost than competing systems.

Reliability. Our products are designed to meet very high standards of reliability in a wide range of applications and environments. For example, we have implemented a difficult agricultural standard (EP455) against which we evaluate our products. Meeting these standards will ensure our products can withstand the harshest environments.

Quality. We have implemented a quality management system focused on providing our customers with products of high value and quality and focused on continuous improvement. Further, we have selected GPS component suppliers and manufacturing partners that meet our high standards for quality. Through our internal processes, and the outsourced manufacturing of certain of our products, we are able to maintain a high standard of quality control and documentation to ensure continued production of high-quality products. In 2009, our quality management system was certified to the international ISO 9001:2008 standard. See "Recent Developments".

Ease of Use. Our products are designed for ease of use. The Outback product line, targeted to farming customers, provides for simple, out of the box installation and use. Our products are designed for simple integration with our customers' applications and/or products. A significant investment is made in customer support to ensure that our customers have the resources they need to achieve full benefit from the products.

Business Strategy

The key elements of our business strategy are:

1. Increase market share in existing verticals and defend current penetration through new product innovation and international expansion;
2. Expand business to new vertical markets and applications; and
3. Streamline operations for sustained profitability.

Product Innovation. Our success has been driven by our ability to develop new positioning, guidance and machine control technologies, to respond to environmental and market changes, and to apply creativity and innovation in the development of new products that meet the evolving demands of our customers. We will continue drive product leadership through focus and innovation.

Develop Strategic Relationships. We believe that strategic relationships with suppliers, OEMs, dealers, distributors and other customers is critical to long-term success. We will continue to develop existing and new strategic relationships.

International Expansion. In the near-term, the North American market is a significant opportunity where we are well positioned through our distribution networks and product portfolio. We believe that focus on international expansion is important to position for mid to longer-term growth opportunities and to buffer the seasonality associated with our exposure to the North American agricultural markets.

Mitigate Seasonality. In 2008, revenues associated with agriculture markets continued to comprise approximately 80% of our revenue with North American revenues making up for 70% (2007 – 71%) of total revenues. As can be seen from these measures, our revenues are significantly tied to seasonality of the buying season of the North American agricultural market, which is heavily skewed to the first half of the calendar year. We continue to seek and pursue opportunities to mitigate this seasonality to the extent that such opportunities also create value.

New Vertical Markets and Applications. We have achieved strong positions in the ground agriculture, aerial agriculture and other markets. To support mid to longer-term growth, we will seek expansion to new vertical markets where we can leverage our core strengths in positioning, guidance, machine control, steering and flow control technologies and applications.

Optimize Product Cost. We continue to aggressively pursue opportunities to reduce or optimize the cost of our products through product design, manufacturing efficiencies and procurement strategies, with an objective to balance functionality, performance and quality with customer needs.

Enhance Manufacturing Quality and Capacity. We have focused on the maintenance of high-quality standards for manufacturing. Time and resource investments in quality development, and design and manufacturing processes, are critical to ensure that our products meet our customers' functionality, performance and quality requirements.

Quality Certification. In our interest to continually improve our quality management process, we underwent an intensive initiative to review, enhance and audit our operating practices. This raised the standards of our organizational discipline and enabled us to obtain certification of our quality management system to the international ISO 9001:2008 standard in 2009. The certification reinforces our commitment to customer satisfaction through high-quality design, development, assembly, testing, delivery, and technical support.

Pursue Strategic Growth. We believe that we have the products, brands, people and intellectual property that can continue to support organic growth. However, we will supplement internal growth and technology development with strategic growth initiatives such as partnerships, alliances, and acquisitions when and where we believe they will accelerate the achievement of our business strategy.

Invest in the Corporation's Intellectual Capital. We believe the employees in all levels of our organization have been, and will continue to be, the key factor in achieving our objectives. As a result, we will continue to place a high priority on our intellectual capital.

Ground Agriculture Products

Outback Guidance Products

Our Outback Guidance product line for agricultural use include our *Outback S-Lite™, Outback S2™, Outback eDrive™,, Outback BaselineHD™, Outback AutoMate™* and our latest *Outback S3™* product.

Outback S-Lite, S2 and S3 family of products offers DGPS guidance systems featuring WAAS and L-Band differential solutions powered by our own high-accuracy Crescent GPS technology. Using Crescent technology, our Outback products enable farmers to navigate their fields with minimal overlap whether in straight lines or contours in any visibility, including darkness. Eliminating overlap saves enough time, fuel, fertilizer and insecticide that farmers say they typically recoup the costs of their easy-to-install and operate guidance systems in less than 12 months. Outback S-Lite is a low-cost, portable, entry-level GPS

guidance solution for non-precision spraying, spreading, and broad-acre tillage and seeding. The Outback S2 and S3 products provide increased functionality and accuracy required for more sophisticated growers. The Outback S-Lite, S2 and S3 products can eliminate the need for foam markers and are expandable to work with Outback AutoMate, for additional boom control automation. The performance of the Outback S2 and S3 can be improved by combining the products with the Outback eDrive and Outback BaselineHD, described below.

Outback eDrive is an accessory product to Outback S2 and Outback S3 providing GPS-assisted auto-steering that enables farmers to drive their tractors and other self-propelled agricultural equipment hands-free, along straight or contoured lines. We also offer an OEM-oriented version called *GPSteer*. Both systems enable operators to focus their attention on monitoring sprayers, combines or other equipment to achieve greater efficiency. A key benefit is the reduction in driver fatigue – enabling the machinery to operate for more hours each day, or through the night if necessary. In addition, the Outback eDrive can be used in conjunction with precision farming techniques focused on improved efficiency, productivity and yields such as "strip-till" farming which requires highly accurate planting and application of fertilizer and other chemicals.

Outback BaselineHD, featuring Hemisphere GPS' L-Dif and single-frequency Crescent RTK technologies, is a Local DGPS system for agricultural applications that achieves significantly greater accuracy than conventional DGPS products while also being much more affordable than competing dual-frequency RTK systems. Outback BaselineHD is a portable base station receiver mounted on a tripod that calculates and broadcasts localized corrections to Outback S2 and S3 products, improving the performance to centimeter-level accuracy.

Outback Automate is an automatic boom shutoff product that works directly with Outback Guidance products. Outback AutoMate monitors and controls individual sprayer sections to minimize overlaps and skips. It offers up to seven section automatic control, manual section control, and user adjustable section overlap. Machine and rate controller specific interface kits are available for a wide variety of vehicles and applications.

Other Ground Agriculture Products

Our guidance products for agricultural use also include non-Outback products focused on OEM and commercial customers based on customized hardware and software system solutions to meet specific customer applications.

Air Agriculture Products

Our Air Agriculture products include guidance and flow control products for the aerial application market including spraying, pattern and mission control, automated constant or variable flow control and prescription mapping among others. Products include the *Satloc M3*, *Del Norte DGPS Flying Flagman®*, *Intelliflow®*, and the *IntelliGate® Controller*.

Satloc M3 is a high-performance aerial guidance system for aerial applicators. The M3 allows pilots to fly and spray precise patterns using constant and/or variable rate flow control reducing fuel, flying time and application costs. The *Del Norte DGPS Flying Flagman®* system is a rugged, waterproof, versatile aerial guidance system for aerial applicators operating in more demanding conditions.

The *Intelliflow®* product enables liquid chemical flow control for aerial guidance applications. Our *IntelliGate® Controller* delivers precise application for dry chemicals in aerial guidance applications.

Precision Products

Our Precision Products lines are our products focused on non-agriculture markets such as marine navigation, survey/Geographic Information Systems ("GIS") mapping and other industrial applications.

These products include OEM components, GPS Heading Sensor products, integrated GPS and DGPS receivers and antennas.

Original Equipment Manufacturer Products

Hemisphere GPS' OEM products include *Crescent single-frequency GPS, Eclipse dual-frequency GPS, Crescent Vector and LV*, Eclipse, *SBX-4 and the LX-1.*

Our *Crescent GPS OEM board* is a 12 channel, L1 GPS receiver that features integrated SBAS differential support, the capability to utilize Beacon DGPS and L-Band WADGPS corrections. It also incorporates Hemisphere GPS' COAST™ and extended differential technologies ("e-Dif®") that enable it to continue to effectively use out-dated differentially corrected data for up to 40 minutes without any significant accuracy degradation. The Crescent GPS OEM board can also be augmented for centimeter and decimeter accuracy applications with Hemisphere GPS' RTK and our exclusive L-Dif technology.

The *Eclipse GPS OEM board* delivers reliable dual-frequency GPS solutions through our exclusive techniques for reducing code measurement noise and mitigating multipath signals. Eclipse fits a wide range of applications with support for a variety of differential GPS solutions including RTK, OmniSTAR (HP and XP) and SBAS (WAAS, EGNOS, MSAS, etc.). Integration is simplified with Eclipse multiple serial and USB ports and upgradeable firmware for establishing the desired configuration and quick access to new features. Based on Hemisphere GPS' successful Crescent L1 GPS technology that incorporates exclusive techniques for reducing code measurement noise and mitigating multipath signals, Eclipse delivers reliable centimeter-level accuracy. The superior performance and versatility of Hemisphere GPS' Eclipse board allows OEM customers to integrate it into a wide variety of precise applications including survey instruments and GPS machine control.

Our *SBX-4 OEM Beacon DGPS module*, introduced November 2006, is the newest in the family of SBX modules, and offers a Beacon DGPS engine that augments separate GPS receivers with free correction signals from land based beacon stations.

Our recently introduced *LX-1 OEM L-Band WADGPS module* provides the capability to augment a separate Crescent GPS with OmniSTAR L-Band error corrections.

Our *Crescent Vector OEM and LV-100 OEM modules* are high accuracy GPS compasses and positioning systems designed primarily for the marine market and other machine control applications. The Crescent Vector OEM incorporates Hemisphere GPS' COAST technology in order to maintain consistent, accurate positioning during periods of differential signal loss.

GPS Heading Sensor Products

Our Vector line of GPS heading sensor products enable users to maintain highly accurate headings at substantially less than the cost of traditional gyrocompasses. The Vector line also incorporates our exclusive COAST technology.

Crescent V100 Series and *Crescent VS100 Series* are targeted primarily to the marine industry, but are also used for other machine control applications – including use to navigate port handling and heavy construction equipment. Each have the capability to utilize accuracy enhancing data from Beacon DGPS, SBAS DGPS, as well as Local DGPS – when combined with our BaselineHD or R100 RTK reference station products.

Crescent V100 is a "smart antenna" system that combines a dual GPS receiver and two antennas into a single enclosure about a half-metre long. Using a sophisticated moving base station RTK technique, the Vector provides heading information sufficient to replace gyrocompasses for many applications at a much lower cost.

Crescent VS100 is made up of a separate receiver and two separate antennas. Users can increase the distance between the antennas which increases the heading accuracy, enabling a broad range of machine control applications. Both the V100 and VS100 have OEM variants that are private labelled and sold through complimentary sales channels.

Integrated GPS Receivers and Antennas

Our *Crescent A100 Smart Antenna* combines our Crescent GPS receiver technology with an antenna in a single enclosure and offers an affordable, portable solution with professional level accuracy for several markets including agricultural, marine and GIS mapping. A100 features integrated SBAS WADGPS support, our exclusive COAST and e-Dif technologies.

Our *Crescent R100 Series* of GPS receivers are intended for a wide variety of applications including marine and land navigation, precision guidance in agriculture, asset-tracking, GIS, mapping and other industrial applications. The R100 series features integrated SBAS WADGPS support, as well as our exclusive COAST and e-Dif technologies. In addition, the R100 series has the capability to utilize accuracy enhancing data from Beacon DGPS, L-Band WADGPS and Local DGPS.

The Eclipse R200 series of GPS receivers offer higher accuracy dual frequency RTK positioning for similar applications are the Crescent R100, but with more accuracy and faster reacquisition times.

We also sell a variety of antenna products to compliment our receivers that are targeted for marine, GIS, surveying and other industrial applications.

GPS Software

We have a growing variety of innovative GPS software products, including several that significantly enhance the location-sensing capabilities of our other products.

Our software includes *COAST*, which enables DGPS receivers to use original differential data for up to 40 minutes without seriously degrading accuracy. COAST makes all Hemisphere GPS receivers less likely than competing products to be affected by trees, buildings and other obstacles that temporarily block differential signals. COAST enables the receivers to "coast" through temporary signal outages with minimum impacts on accuracy.

We also have our patented *e-Dif* or "extended differential" software that enables standard GPS receivers to achieve higher accuracy without any help from accuracy-enhancing differential signals. e-Dif enables a standard GPS receiver, capable of only 2 to 3 metres accuracy, to internally generate differential corrections that improve its accuracy to less than one metre without the expense or potential uncertainties of differential signals. e-Dif computes corrections with a very slow error drift rate, typically maintaining sub-metre accuracy for as long as 40 minutes, and is often a practical solution for much longer periods of time.

e-Dif can save customers the cost of subscription fees for DGPS signals in regions such as South America, Africa and Australia where no differential signals are available for free. Even in North America, where signals are free, e-Dif is a valuable back-up against signal outages. In northern latitudes, including many parts of Canada, e-Dif can achieve better accuracy than what is possible using free differential signals from SBAS systems such as WAAS, or when a receiver is on the fringe of land-based radio beacon networks.

Research and Product Development and Specialized Skills and Knowledge

The focus of Hemisphere GPS's research and development team is on expanding our core GPS positioning technologies and on developing new products and applications. We believe that our research and product development capabilities are critical factors contributing to our success and primary barriers

to potential competitors' entry into the GPS industry. Accordingly, we intend to continue investing significant resources in research and product development.

Our research and development team includes individuals with specialized skills in the following disciplines, among others: electrical engineering, radio-frequency engineering, geomatics engineering, mechanical design, system architecture and software design. Although the availability of these resources is limited, we have not experienced significant problems accessing the required skill and knowledge required for our research and development activities.

Intellectual Property and Intangible Properties

We have developed a significant portfolio of intellectual property including technology, product designs, software, patents, trademarks and brand names, among others. As of December 31, 2008 we held 24 patents and had 19 patents pending in USA, Canada and Australia in addition to a few other international filings.

Marketing, Sales and Distribution

Our strategy for sales and distribution of our products in our Air, Precision Products and non-North American Ground Agriculture product lines has generally been through large OEMs, dealer networks and distributors with established channels for multi-country distribution. This strategy eliminates the need to devote significant direct resources to developing these distribution channels on our own. This strategy has enabled us to participate in a broader range of high-growth commercial and consumer GPS-enabled markets.

For sales of Ground Agriculture products in North America, we have established over 300 Outback Guidance Centres ("OGC"). Each OGC is responsible to support sales of our Outback line of products to end-user customers in defined territories. Outside of North America, we have established relationships a variety of distributors for the Outback product line who sell to the end-user customers.

Hemisphere GPS serves global markets. Of our 2008 sales, 49.4% (2007 – 47.6%) occurred in the United States, 20.7% (2007 – 24.3%) occurred in Canada, 13.8% (2007 – 11.9%) occurred in Europe, 4.9% (2007 – 4.0%) occurred in Australia and 11.2% (2007 – 12.2%) occurred in other areas of the world including South America and Asia, among others.

From a customer's perspective, the primary benefits provided by our products are increased accuracy in navigation, improvements in productivity, increased safety and savings in costs and time. For example, in farming applications, our guidance products result in savings to users through reduced overlap and reduced driver fatigue. In addition, our products can be used in conjunction with precision farming techniques focused on improved efficiency, productivity and yields such as "strip-till" farming which requires highly accurate planting and application of fertilizer and other chemicals. Significant cost savings can be achieved by using these types of precision farming techniques.

In marine applications, our commercial customers typically use our products for accurate navigation – enabling vessels to maintain accurate headings while navigating at substantially less cost than traditional gyrocompasses.

Competition

We have competitors in each of our target markets and expect competition to intensify as acceptance and awareness of GPS technology increases. One of our main competitors is Trimble Navigation Limited ("Trimble"). Trimble's GPS products currently address the survey and mapping, tracking and communications, navigation, precision agriculture and military systems markets. Other competitors offering products similar to those of Hemisphere GPS include NovAtel Inc., Magellan Navigation Inc.,

Novariant, Inc., Leica Geosystems, Topcon Corporation and Raven Industries. In addition, we expect to face competition from new market entrants over time.

We believe the principal competitive factors in the markets we serve include: price, ease of use, physical characteristics, power consumption, product features (including accuracy), product reliability, size of installed base, brand reputation, vendor reputation and financial stability of the vendor. We believe that our products compete favourably with competitors' products on many of the foregoing factors and as a result, we have achieved a strong market position in certain of our markets including ground agricultural guidance and auto-steering, aerial agricultural guidance and flow control and marine heading sensors.

We recognize that some of our competitors may have access to greater financial, marketing, service and support and technological resources. See "Risk Factors".

Manufacturing

We have outsourced certain of our high-volume components and finished products to an external manufacturer in China which has resulted in cost savings and an increase in manufacturing capacity. We manufacture and assemble lower volume finished goods, integrated positioning units and antennas in-house at our Calgary facility. To a lesser extent, we also perform some assembly activities in our other facilities.

Our operations department provides production engineering services internally and for our external manufacturing partner to ensure that our products can be manufactured in large volumes, technical production problems are corrected and averted, and alternative production methodologies are introduced to remain competitive. In addition, vendor and subcontractor qualifications are reviewed by the engineering group and test engineering is provided to guide the department in achieving specifications and ensuring product integrity. We source our assembly materials and components from a variety of suppliers. All of our suppliers are at arm's length. Alternate supply sources for all components is a desired goal, and is evaluated on a regular basis, but currently is not available in all circumstances.

The implementation of a new Enterprise Resource Planning ("ERP") system in 2006 has assisted us to improve the effectiveness and efficiency of our operations, including inventory management and manufacturing. In addition, the company has undertaken a number of initiatives focused on improving our effectiveness in quality, procurement, inventory management, design cost, product-life cycle management, among others.

We are determined to maintain our position as a low-cost, high-quality producer and to ensure that production processes are responsive, smooth and flexible to serve the needs of our customers.

Facilities

We conduct operations from facilities in Calgary, Alberta; Scottsdale, Arizona; Hiawatha, Kansas; Euless, Texas; Winnipeg, Manitoba and Brisbane, Australia; with a combined area of approximately 107,700 square feet to manufacture and assemble products, carry out research and development, sales and marketing, and finance and administration activities. We lease the facilities and they are deemed adequate to support our annual sales for the foreseeable future.

We are in the process of closing our facility in Euless, Texas, which should be completed by the end of June 2009.

Personnel

At December 31, 2008, we had 258 employees in total, with 64 in Research and Development, 74 in Sales and Marketing, 79 in Operations and 41 in Administration.

DIVIDEND POLICY

We have not paid any dividends on the Common Shares during the last three financial years. The future payment of dividends will be determined by our Board of Directors, and will depend on the financial needs of the Corporation to fund future growth, the general financial condition of the Corporation and other relevant factors. We do not intend to pay dividends on our Common Shares in the foreseeable future.

CAPITAL STRUCTURE

The Corporation is authorized to issue an unlimited number of Common Shares, an unlimited number of first preferred shares, issuable in series (the "First Preferred Shares") and an unlimited number of second preferred shares, issuable in series ("Second Preferred Shares"). As at March 26, 2009, an aggregate of 55,561,676 Common Shares, no First Preferred Shares and no Second Preferred Shares were issued and outstanding.

The following is a summary of the rights, privileges, restrictions and conditions attaching to each class of shares.

Common Shares

The holders of Common Shares will be entitled to one vote at all meetings of our shareholders except at meetings of which only holders of a specified class of shares are entitled to vote. The holders of Common Shares will be entitled to receive, subject to the prior rights and privileges attaching to any other class of our shares, such dividends as may be declared by us. Holders of Common Shares will be entitled upon any liquidation, dissolution or winding-up of HEM, subject to the prior rights and privileges attaching to any other class of shares of HEM, to receive the remaining property and assets of HEM.

On December 27, 2007, the Corporation closed a bought-deal private placement of 5,555,600 special warrants ("Special Warrants") issued at a price of CDN$3.15 per Special Warrant for total gross proceeds of $17,446,061. On March 26, 2008, the Special Warrants were exercised and 5,555,600 Common Shares were issued. There are no further Special Warrants outstanding.

Under Performance Warrants issued to RHS, Inc. in connection with the Company's April 2005 acquisition of the Outback Business, at December 31, 2007, 1,500,028 Common Shares of the Company were issuable to RHS for no additional consideration based upon cumulative revenue and profitability targets over the 2005, 2006 and 2007 fiscal years. The Common Shares were issued on April 8, 2008 and were valued at CDN$3.54 per share. This has been accounted for as additional consideration on the acquisition and recorded as goodwill.

First Preferred Shares

Our Board of Directors may at any time and from time to time issue First Preferred Shares in one or more series, each series to consist of such number of shares as may, before the issuance thereof, be determined by the Board of Directors. HEM has no outstanding First Preferred Shares at this time.

Second Preferred Shares

Our Board of Directors may at any time and from time to time issue Second Preferred Shares in one or more series, each series to consist of such number of shares as may, before the issuance thereof, be determined by the Board of Directors.

The Second Preferred Shares of each series rank on a parity with the Second Preferred Shares of every other series with respect to accumulated dividends and return of capital. The Second Preferred Shares shall be entitled to a preference over the Common Shares and over any other shares of HEM ranking junior to the Second Preferred Shares with respect to priority in the payment of dividends and in the

distribution of assets in the event of the liquidation, dissolution or winding-up of HEM, whether voluntary or involuntary, or any other distribution of our assets among our shareholders for the purpose of winding-up our affairs.

The rights, privileges, restrictions and conditions attaching to the Second Preferred Shares as a class may be added to, changed or removed but only with the approval of the holders of the Second Preferred Shares given as specified in our articles.

ESCROWED SECURITIES

To our knowledge, there are no Common Shares held in escrow as of March 27, 2009.

MARKET FOR SECURITIES

Our Common Shares are listed and posted for trading on the TSX under the symbol "HEM".

The following table shows the price range and trading volume of the Common Shares as reported by the TSX for the periods indicated:

Period	High (Cdn$)	Low (Cdn$)	Volume
2008			
January	4.01	2.90	3,316,300
February	3.78	3.21	4,662,000
March	3.66	2.75	3,209,500
April	4.25	2.99	7,026,200
May	4.78	3.76	8,785,600
June	4.92	3.72	6,356,600
July	4.50	3.60	4,536,900
August	3.97	2.90	5,476,900
September	3.10	2.28	4,688,700
October	2.85	1.40	7,707,700
November	2.01	1.35	2,621,600
December	1.85	1.15	2,529,600
2009			
January	1.79	1.15	1,999,000
February	1.30	1.01	5,377,600
March 1 - 26	1.33	.91	1,154,613

DIRECTORS AND OFFICERS

The names, provinces and countries of residence, positions with the Corporation, and principal occupation of the directors and officers of the Corporation are set out below and in the case of directors, the period each has served as a director of the Corporation.

Name, Province and Country of Residence	Position	Principal Occupation During the Last Five Years
Michael J. Lang Alberta, Canada	Director since 1996 and Chairman of the Board	Chairman of StoneBridge Merchant Capital Corp. (a private investment company).
Barry D. Batcheller[(2)] North Dakota, USA	Director since May 2006	President and CEO of Appareo Systems, LLC since 2005. Prior thereto Director of Technology Growth with John Deere & Company since 2002. Prior thereto, President and CEO of

Name, Province and Country of Residence	Position	Principal Occupation During the Last Five Years
		Phoenix International Corporation.
Paul L. Camwell[1] [3][4] Alberta, Canada	Director since 1998 and Chairman of the Corporate Governance Committee	Chief Technology Officer of Xact Downhole Telemetry Inc., and was formerly Chief Technology Officer and Vice President for Extreme Engineering Ltd., an engineering and technology firm.
Paul G. Cataford[1] Alberta, Canada	Director since 2004 and Chairman of the Audit Committee	President and CEO of University Technologies International Inc. (UTI) since April 2004, a University of Calgary subsidiary responsible for its technology commercialization. Prior thereto, Managing Partner of HorizonOne Asset Management, a Toronto-based firm he co-founded in 2001. Prior thereto, Executive Managing Director of BMO Nesbitt Burns Equity Partners from 2001 to 2002.
Richard W. Heiniger Missouri, USA	Director since 2005	Chief Executive Officer of RHS Inc. during the last five years. President of Hemisphere GPS LLC from April 9, 2005 to May 15, 2006.
John M. Tye III[1] [3] Texas, USA	Director since May 2006	Chairman, Bigham Brothers Inc.
Howard W. Yenke[2] Massachusetts, USA	Director since 1996 and Chairman of the Compensation Committee	Retired executive.
Steven L. Koles Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer of HEM since September 8, 2006. Prior thereto General Manager at AOL Canada from 2003 to 2006.
Cameron B. Olson Alberta, Canada	Senior Vice President and Chief Financial Officer	HEM's Senior Vice President and Chief Financial Officer since October 2003 and Vice President, Finance.
S. Dean Ryerson Kansas, USA	Senior Vice President and Chief of Agriculture	HEM's Senior Vice President and Chief of Agriculture. Prior thereto, Senior Vice President and Chief Operating Officer, Agriculture. Prior thereto, Vice President and General Manager. Prior to April 2005, President of RHS, Inc.
William J. Burdick Kansas, USA	Vice President, Sales, Ground Agriculture	HEM's Vice President, Sales, Ground Agriculture. Prior thereto General Manager, Ground Agriculture. Prior to April 2005, Manager of Sales, RHS, Inc.
Phil W. Gabriel Alberta, Canada	General Manager, Precision Products	HEM's General Manager, Precision Products, for Hemisphere GPS since November 2005. Prior thereto HEM's Vice President Sales, Wireless.
Chad A. Lind Texas, USA	General Manager, Air Division	HEM's General Manager, Air Agriculture product line. Prior thereto Project Manager and Vice President of BancTec, Inc.
Michael B. Pratt Alberta, Canada	Vice President, Finance and Administration	HEM's Vice President, Finance and Administration since July 2006. Prior thereto HEM's Director of Management Information Systems since March 2005. Prior thereto management consultant.

Name, Province and Country of Residence	Position	Principal Occupation During the Last Five Years
Lisa M. Smith Alberta, Canada	Vice President, Operations	HEM's Vice President of Operations since July 2006. Prior thereto HEM's Vice President of Supply Chain Operations, Wireless since September 2005 and previously the Director of Supply Chain, Wireless.
Mohamed A. Abousalem Alberta, Canada	Vice President, Marketing and Business Development	HEM's Vice President of Business Development since May 9, 2007. Prior thereto Senior Director of OEM Solutions at Magellan Navigation. Prior thereto Senior Director of Engineering; Worldwide Director of Marketing and OEM Product Marketing Manager at Magellan Navigation.
James H. Chinnick Alberta, Canada	Vice President, Engineering	HEM's Vice President of Engineering since January 14, 2008. Prior thereto self-employed consultant in 2007. Prior thereto President and Acting CEO and prior to that Vice President of Operations of Wave Wireless Corp in 2006. Prior thereto Vice President of Engineering of Waverider Communications (Canada) Inc. from 2003 – 2006.
Michael L. Whitehead Arizona, USA	Chief Scientist	HEM's Chief Scientist since 1999.

Notes:
(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Corporate Governance Committee.
(4) Paul Camwell will resign from the board of directors on May 14, 2009, the date of the annual general meeting of shareholders of Hemisphere GPS.

Our directors will hold office until the next annual general meeting of our shareholders or until each director's successor is appointed or elected pursuant to the ABCA.

As at March 26, 2009, our directors and officers as a group, beneficially owned or controlled or directed, directly or indirectly, 6,068,242 Common Shares or approximately 10.92% percent of the issued and outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as set forth below, no current director or executive officer of the Corporation has, within the last ten years prior to the date of this document, been a director, chief executive officer or chief financial officer of any issuer (including the Corporation) that, (i) while the person was acting in the capacity as director, chief executive officer or chief financial officer, was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, that was in effect for a period of more than thirty (30) consecutive days; or (ii) was subject to an order that resulted, after the director, executive officer or securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation ceased to be a director, chief executive officer or chief financial officer of an issuer, in the issuer being the subject of a cease trade or similar order or an order that denied the relevant issuer access to any exemption under securities legislation, for a period of more than thirty (30) consecutive days, which resulted from an event that occurred while that person was acting as a director, chief executive officer or chief financial officer if the issuer.

Except as set forth below, no current director or officer or securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has, within the last ten years prior to the date of this document, been a director or executive officer of any company (including the Corporation) that, while such person was acting in that capacity, or within a year of that person

ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement for compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Steven L. Koles was previously an officer of GT Group Telecom Inc.. In March 2002, Mr. Koles resigned from his position with that company. GT Group Telecom Inc. filed for CCAA protection prior to the end of 2002. GT Group Telecom Inc. later merged with 360 Networks Inc.

James H. Chinnick was previously an officer of Wave Wireless Corp. In October 2006, Mr. Chinnick resigned from his position with that company. Shortly thereafter, Wave Wireless Corp. filed a voluntary petition for relief pursuant to the *Bankruptcy Code* in the United States Bankruptcy Court for the District of Delaware.

No current director or officer or securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The directors and officers of the Corporation may, from time to time, be involved in the business and operations of other issuers, in which case a conflict may arise. See "Risk Factors".

The ABCA provides that in the event a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interests arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as stated below, there were no material interests, direct or indirect, of our directors and executive officers, any person or company who beneficially owns or control or directs, directly or indirectly, more than 10% of the outstanding Common Shares, or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by us during, or related to, our most recently completed financial year other than KPMG LLP, our auditors. KPMG LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

MATERIAL CONTRACTS

We currently have no material contracts in place that were entered into outside of the ordinary course of business.

AUDITORS, TRANSFER AGENT AND REGISTRAR

KPMG LLP, Chartered Accountants, Suite 2700, Bow Valley Square II, 205 – 5th Avenue S.W., Calgary, Alberta, T2P 4B9, are the auditors of the Corporation.

Computershare Trust Corporation of Canada, 600, 530 – 8th Avenue S.W., Calgary, Alberta, T2P 3S8, is the Transfer Agent and Registrar of the Corporation.

AUDIT COMMITTEE INFORMATION

Our audit committee (the "Audit Committee") is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The committee is composed of three external independent directors. All three are financially literate, meaning they are able to read and understand financial statements of a complexity level comparable to that of the financial statements of Hemisphere GPS. The Audit Committee's Charter is available in Appendix "A" to this Annual Information Form.

Audit Committee Members

Paul G. Cataford, Calgary, Alberta

Paul Cataford is President and CEO of University Technologies International Inc. He has extensive investment, technology and business development experience from more than 14 years in the venture capital/private equity industry. Mr. Cataford is a graduate of the Institute of Corporate Directors' Directors Education Program and sits on a number of audit and corporate governance committees. He also currently serves on the boards of Sierra Wireless Inc. and of a number of private companies. Mr. Cataford has a Mechanical Engineering degree from Queen's University and an MBA from York University's Schulich School of Business.

Paul L. Camwell, Calgary, Alberta

Paul Camwell is Chief Technology Officer of Xact Downhole Telemetry Inc., and was formerly Vice-President and Chief Technology Officer of Extreme Engineering Ltd. A former Industrial Technical Advisor to NRC/TRLabs, he has held senior management positions in the Scientific Civil Service (U.K.), at NovAtel Communications Ltd. and at Ryan Energy Technologies Inc. Dr. Camwell is qualified as a physicist and electronic engineer. He is a Professional Engineer practicing in Alberta.

John M. Tye III, Plainview, Texas

John Tye III is the Chairman of Bigham Brothers Inc. He was formerly President and CEO of AgEquipment Group. He was also a partner in InterAg Technologies. He has extensive industry knowledge being the only individual to have served as Board Chairman of both of the major farm equipment associations – the Equipment Manufacturers Institute and the Farm Equipment Manufacturers Association. In addition, Mr. Tye has served with several other organizations such as the Conservation Technology Information Center and the Southern Farm Equipment Manufacturers Association.

Paul Camwell has announced that he will retire from the board of directors and the Audit Committee on May 14, 2009, the date of the annual general meeting. Mr. Camwell will be replaced on the Audit Committee by Michael Lang.

Pre-approval Policies and Procedures – Audit and Non-Audit Services

We have adopted polices and procedures with respect to the pre-approval of audit and permitted non-audit services to be provided by KPMG LLP as set forth in the Audit Committee charter, which is reproduced in Appendix "A" to this Annual Information Form. The Audit Committee has approved the provision of a specified list of audit and permitted non-audit services that the audit committee believes to be typical, reoccurring or otherwise likely to be provided by KPMG LLP during the current fiscal year. The list of services is sufficiently detailed as to the particular services to be provided to ensure that the Audit Committee knows precisely what services it is being asked to pre-approve and it is not necessary for any member of management to make a judgment as to whether a proposed service fits within pre-approved services.

Auditor Service Fees

The following fees are for services provided by KPMG relating to fiscal years 2008 and 2007.

Type of Service Provided	CDN$ 2008	CDN$ 2007
Audit and Quarterly Review Fees	$ 204,200	$ 197,000
Tax Fees (acquisition related)	3,250	14,500
All Other Fees (ICFR related)	8,220	-
Total	$ 215,670	$ 211,500

Audit and quarterly review fees consist of fees for the audit of the Company's annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements and include fees related to acquisition and financing.

RISK FACTORS

The following is a summary of certain risk factors relating to our business. The information is only a summary of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. An investment in the Common Shares of the Corporation involves a significant degree of risk. Prospective investors should carefully consider the following factors, together with other information contained in this Annual Information Form.

Foreign Currency Exchange Rate Fluctuations

Sales of the Company's products are transacted primarily in US dollars. Expenses are incurred in US dollars, Canadian dollars and Australian dollars, and as a result, the Company is exposed to risk associated with US, Canadian and Australian dollar currency fluctuations. A weakening in the US dollar relative to the Canadian dollar, as was seen over the years 2003 to 2007, results in higher relative US dollar expenses for the Company when compared to a stronger US dollar.

The Company denominates substantially all of its sales in US dollars. A stronger US dollar, compared to the currencies of countries where Hemisphere GPS is selling its products, makes the Company's products more expensive to customers in those countries. As a result a strengthening US dollar, as was seen during the last half of 2008 – and is continuing in early 2009 – could have a negative impact on sales to such countries. As the Company expands with increased global sales, it is expected that it may be necessary to transact sales in foreign currencies other than US dollars, thus exposing the Company to additional foreign currency risk

In 2008, we entered into derivative financial instruments to manage our foreign currency exposure in connection with the implementation of a foreign exchange risk management program. Although this program has been implemented, there is no guarantee we will not experience foreign exchange gains and losses in future periods.

General Economic and Financial Market Conditions

In 2008, the Company faced extremely negative conditions in global economic, financial and product markets. Continued or increasingly negative conditions in market and business environments, or adverse geopolitical events, could have a negative impact on the Company's future performance. The Company's agricultural product sales have typically been affected to some extent each year by drought conditions in certain markets. For example, a drought has continued for several years in significant regions in Australia which has negatively impacted sales of agriculture guidance products into that market. Should negative weather conditions arise in any of the Company's key markets in the future, the Company could realize lower-than-expected revenues in the impacted market areas.

Dependence on Key Personnel and Consultants

Our success is largely dependent upon the performance of personnel and key consultants. The unexpected loss or departure of any of the key officers, employees or consultants could be detrimental to our future operations. Our success will depend, in part, upon our ability to attract and retain qualified personnel, as they are needed. The competition for highly skilled technical, research and development, management, and other employees is high in the GPS industry. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

Competition

We compete in a highly competitive industry that is constantly evolving and changing. We expect this competition to increase as new competitors enter the market. Many of our competitors have greater financial, technical, sales, production and marketing resources. We compete with companies that also

have established customer bases and greater name recognition. This may allow competitors to respond more quickly to the GPS market and better implement technological developments. There is no assurance that we will be able to compete on the same scale as these companies. Such competition may result in reduced sales, reduced margins or increased operating expenses.

Third-Party Dependence

Many of our products rely on signals from satellites, and other ground support systems, that we do not own or operate. Such satellites and their ground support systems are complex electronic systems subject to electronic and mechanical failures and possible sabotage. The satellites have limited design lives and are subject to damage by the hostile space environment in which they operate. If a significant number of satellites were to become inoperable, there could be a substantial delay before they are replaced with new satellites. A reduction in the number of operating satellites would impair the current utility of the GPS and/or the growth of current and additional market opportunities, which would adversely affect our results of operations. In addition, there is no assurance that the US government will remain committed to the operation and maintenance of GPS satellites over a long period of time; or that the policies of the US government for the commercial use of GPS without charge will remain unchanged.

Dependence on New Products

We must continue to make significant investments in research and development to develop new products, enhance existing products and achieve market acceptance for such products. However, there can be no assurance that development-stage products will be successfully completed or, if developed, will achieve significant customer acceptance. If we are unable to successfully define, develop and introduce competitive new products, and enhance existing products, our future results would be adversely affected.

Intellectual Property

The industry in which we operate has many participants that own, or claim to own, proprietary intellectual property. We have received, and may receive, claims from third parties claiming that we have infringed on their intellectual property rights. Determination of the rights to intellectual property is very complex, and costly litigation may be required to establish if we have violated the intellectual property rights of others. As a result of such claims, we could be subject to losses arising from product injunctions, awards for damages and third party litigation costs, requirements to license intellectual property, legal expenses, diversion of Managements' time and attention, and other costs.

Government Regulation

Our products are subject to government regulation in the United States, Canada, Australia and other regions in which we operate. Although we believe that we have obtained the necessary approvals for the products that we currently sell, we may not be able to obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or we may not be able to obtain regulatory approvals from countries in which we may desire to sell products in the future.

Availability of Key Supplies

We are reliant upon certain key suppliers for raw materials and components, and no assurances can be given that we will not experience delays or other difficulties in obtaining supplies, as a result of trade disputes or other matters. While no single vendor currently supplies more than 10% of the raw materials used by us, the raw materials used in certain operations are available only through a limited number of vendors. Although we believe there are alternative suppliers for most of our key requirements, if our current suppliers are unable to provide the necessary raw materials or otherwise fail to timely deliver products in the quantities required, any resulting delays in the manufacture or distribution of existing products could have a material adverse effect on our results of operations and our financial condition.

Credit Risk

We have undergone significant sales growth resulting in a significant growth in our customer base. As a result, we have an increasing exposure to credit risk related to trade balances owing from customers. In the normal course of business, we monitor the financial condition of our customers and review the credit history of new customers to establish credit limits. We establish an allowance for doubtful accounts that corresponds to the credit risk of our customers, historical trends and economic circumstances. Losses could be realized by us if customers default on their balances owing.

Technology Risk

Our success in the GPS markets may depend in part on our ability to develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. Our products embody complex technology that may not meet those standards, changes and preferences. We may be unable to successfully address these developments on a timely basis or at all. Failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause us to be unable to recover significant research and development expenses and could reduce our revenue.

Future Acquisitions

We may seek to expand our business and capabilities through the acquisition of compatible technology, products or businesses. There can be no assurance that suitable acquisition candidates can be identified and acquired on favourable terms, or that the acquired operations can be profitably operated or integrated in our operations. In addition, any internally generated growth experienced by us could place significant demands on our Management, thereby restricting or limiting our available time and opportunity to identify and evaluate potential acquisitions. To the extent Management is successful in identifying suitable companies or products for acquisition, we may deem it necessary or advisable to finance such acquisitions through the issuance of Common Shares, securities convertible into Common Shares, debt financing, or a combination thereof. In such cases, the issuance of Common Shares, First or Second Preferred Shares or convertible securities could result in dilution to the holders of Common Shares at the time of such issuance or conversion. The issuance of debt to finance acquisitions may result in, among other things, the encumbrance of certain of our assets, impeding our ability to obtain bank financing, decreasing our liquidity, and adversely affecting our ability to declare and pay dividends to our shareholders.

Proprietary Protection

Our success will depend, in part, on our ability to obtain patents, maintain trade secrets and unpatented know-how protection, and to operate without infringing on the proprietary rights of third parties or having third parties circumvent our rights. We rely on a combination of contract, copyright, patent, trademark and trade secret laws, confidentiality procedures and other measures to protect our proprietary information. There can be no assurance that the steps taken will prevent misappropriation of our proprietary rights. Our competitors could also independently develop technology similar to our technology. Although we do not believe that our products or services infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against us, or that any such assertions or prosecutions will not materially adversely affect our business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and diversion of resources with respect to the defence thereof, which could have a material adverse effect on our business.

Conflicts of Interest

Certain of our directors are engaged and will continue to be engaged in the design, manufacture and marketing of electronic products, and situations may arise where the directors may be in direct competition with our business. Conflicts of interest, if any, which arise will be subject to and governed by the procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with us to disclose his interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Product Liability

The sale and use of our products entail risk of product liability. Although we have product liability insurance, there is no assurance that such insurance will be sufficient or will continue to be available on reasonable terms.

New and Emerging Markets

Many of the markets for our products are new and emerging. Our success will be significantly affected by the outcome of the development of these new markets.

Physical Facilities

We have facilities at several different locations, as well as component inventory, finished goods and capital assets at third-party manufacturing facilities. Tangible property at each location is subject to risk of fire, earthquake, flood, and other natural acts of God. In the event of such events or acts, there could be delays in production and shipments of product due to both the loss of inventory and/or capacity to produce.

Legal Risks

In common with other companies, we are subject to legal risks related to operations, contracts, relationships and otherwise under which we may be served with legal claims. Whether or not the claims are legally valid, such claims may result in legal fees, damages, settlement costs and other costs as well as significant time and distraction of Management and employees.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

We are not aware of any proceeding that involves a claim for damages, exclusive of interest and costs, of more than ten percent of our current assets, except for the following.

On October 17, 2006, we were served with a statement of claim in the Court of Queen's Bench of Alberta by Longview, a former customer of our Telematics product line. The statement of claim cites damages of $35 million related to breach of contract, intentional interference and misrepresentation relating to commercial dealings between HEM and Longview and negotiations for the sale of the Asset-Link Telematics product line. This legal action has been closed following a Settlement Agreement between the parties. All documentation has been filed and the matter is now closed.

We are not aware of any (i) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority in the year ended December 31, 2008; (ii) any other penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements the Corporation entered into before a court relating to securities legislation or with a securities regulatory authority during the year ended December 31, 2008.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under our equity compensation plans, as applicable, is contained in our information circular for the most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in our financial statements and management discussion and analysis for the year ended December 31, 2008, which are available on SEDAR at www.sedar.com and are set forth in our 2008 Annual Report. Documents affecting the rights of security holders, along with additional information relating to us, may also be found on SEDAR at www.sedar.com.

APPENDIX "A" – AUDIT COMMITTEE TERMS OF REFERENCE.

1. **Establishment of Audit Committee:** The board of directors (the "Board") hereby establish a committee to be called the Audit Committee (the "Committee").

2. **Membership:** The Committee shall be composed of three members or such greater number as the Board may from time to time determine, all of whom shall be "independent", as such term is defined in Multilateral Instrument 52-110, "Audit Committees" ("MI 52-110"). Members shall be appointed periodically from among the "independent" members of the Board. All members of the Committee shall be financially literate, being defined under MI 52-110 and herein as having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the Corporation's financial statements.

3. **Mandate:** The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities.

Audit Committee Purpose

Through discussion with management and the external auditors of the Corporation, the Audit Committee will be responsible to:

- Monitor the management of the principal risks that could impact the financial reporting of the Company;
- Monitor the integrity of the Company's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
- Oversee and monitor the independence and performance of the Company's external auditors;
- Provide an avenue of communication among the external auditors, management and the Board of Directors, including the resolution of disagreements between management and the external auditors regarding financial reporting;
- Encourage adherence to, and continuous improvement of, the Company's policies, procedures, and practices at all levels;
- Monitor compliance with legal and regulatory requirements; and
- Ensure that effective procedures are in place for the anonymous submission, receipt, retention and treatment of complaints and concerns regarding accounting, internal control and auditing matters.

Audit Committee Duties and Responsibilities

Primarily through review and discussion with management and the external auditors, the Audit Committee is responsible to:

Review Procedures

(a) Review periodically the Committee's Terms of Reference;

(b) Review the Company's annual audited financial statements and related documents, including the press release and MD&A, prior to filing or distribution. Review should include discussion with management and external auditors of significant issues regarding accounting principles, practices, and significant management estimates and judgments;

(c) Following completion of the annual audit, review separately with each of management and the independent auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information;

(d) Review any significant disagreements among management and the independent auditors in connection with the preparation of the financial statements;

(e) Periodically, in consultation with management and external auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures;

(f) Review risk management policies and procedures of the Company (i.e., litigation and insurance);

(g) Periodically review and assess the adequacy of the procedures that are in place for the review of the Company's public disclosure of financial information extracted from or derived from the Company's financial statements;

(h) Review significant findings prepared by the external auditors together with management's responses;

(i) Review the principal risks affecting financial reporting;

(j) Review with financial management and the external auditors, and approve, the company's quarterly financial results and related documents, including the quarterly press releases and MD&A, prior to the public release. By approval of these Terms of Reference for the Audit Committee, the Board delegates the authority to approve these documents on behalf of the Board;

(k) Discuss any significant changes to the Company's accounting principles prior to their adoption. The Chair of the Committee may represent the entire Audit Committee for purposes of this review;

External Auditors

(l) The external auditors are ultimately accountable to the Audit Committee and the Board of Directors, as representatives of the shareholders. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the external auditors or approve any discharge of auditors when circumstances warrant;

(m) Approve the fees and other significant compensation to be paid to the external auditors;

(n) On an annual basis, the Committee should review and discuss with the external auditors all significant relationships they have with the Company that could impair the auditors' independence;

(o) Review the external auditors' audit plan - discuss and approve audit scope, staffing, locations, reliance upon management, and general audit approach;

(p) Prior to releasing the year-end financial results, discuss the results of the audit with the external auditors. Discuss certain matters required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants;

(q) Consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in the Company's financial reporting;

(r) Approve all non-audit services to be provided to the Corporation by the external auditors' firm, prior to such services being performed, except that by approval of these terms of reference, the Audit Committee hereby approves the following non-audit services to be provided by the external auditors:

   (i) Tax services connected with the preparation of the Corporation's tax returns, or the tax returns of any of its subsidiaries; and

   (ii) Due diligence and tax services connected with any mergers, acquisitions or dispositions being considered by the Corporation;

(s) Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present or former auditors;

(t) When there is to be a change in external auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change;

Legal Compliance

(u) On at least an annual basis, review with the Company's counsel any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies; and

Other Audit Committee Responsibilities

(v) Periodically assess the effectiveness of the committee against its terms of reference and report the results of the assessment to the Board.

4. **Administrative Matters:** The following general provisions shall have application to the Committee:

(a) The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the external auditors as well as anyone in the organization. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties;

(b) Two members of the Committee shall constitute a quorum. No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. Meetings may occur via telephone or teleconference;

(c) Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director. The Board may fill vacancies on the Committee by appointment from among its independent members. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its powers so long as a quorum remains;

(d) The Committee shall meet at least four times per year and/or as deemed appropriate by the Chair;

(e) If deemed necessary by the Chair, agendas shall be circulated to Committee members along with background information on a timely basis prior to the Committee meetings;

(f) Any issues arising from these meetings that bear on the relationship between the Board and management should be communicated to the Chief Executive Officer by the Board Chair;

(g) The Committee may invite such officers, directors and employees of the Corporation as it may see fit from time to time to attend at meetings of the Committee and assist thereat in the discussion and consideration of the matters being considered by the Committee;

(h) The time at which and place where the meetings of the Committee shall be held and the calling of meetings and the procedure in all respects at such meetings shall be determined by the Committee, unless otherwise determined by the by-laws of the Corporation or by resolution of the Board;

(i) Unless otherwise designated by the Board, the members of the Committee shall elect a Chairman from among the members and the Chairman shall preside at all meetings of the Committee. The Chairman of the Committee shall have a second and deciding vote in the event of a tie. In the absence of the Chairman, the members of the Committee shall appoint one of their members to act as Chairman;

(j) Minutes of the Committee will be recorded and maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.